

ALEXANDRIA REAL ESTATE EQUITIES INC

Form 10-Q

November 09, 2012

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

95-4502084

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

385 East Colorado Boulevard, Suite 299, Pasadena, California 91101

(Address of principal executive offices) (Zip code)

(626) 578-0777

(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☐

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

As of November 7, 2012, 63,688,102 shares of common stock, par value \$.01 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>FINANCIAL STATEMENTS (UNAUDITED)</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2012, and December 31, 2011</u>	3
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011</u>	5
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity and Noncontrolling Interests for the Nine Months Ended September 30, 2012</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u>	
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	44
<u>Item 3.</u>	
<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	87
<u>Item 4.</u>	
<u>CONTROLS AND PROCEDURES</u>	88
<u>PART II OTHER INFORMATION</u>	
<u>Item 1A.</u>	
<u>RISK FACTORS</u>	88
<u>Item 6.</u>	
<u>EXHIBITS</u>	90
<u>SIGNATURES</u>	91

[Table of Contents](#)**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS (UNAUDITED)****Alexandria Real Estate Equities, Inc.****Condensed Consolidated Balance Sheets***(In thousands)**(Unaudited)*

	September 30, 2012	December 31, 2011
Assets		
Investments in real estate, net	\$ 6,300,027	\$ 6,008,440
Cash and cash equivalents	94,904	78,539
Restricted cash	44,863	23,332
Tenant receivables	10,124	7,480
Deferred rent	160,914	142,097
Deferred leasing and financing costs, net	152,021	135,550
Investments	107,808	95,777
Other assets	94,356	82,914
Total assets	\$ 6,965,017	\$ 6,574,129
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	\$ 719,350	\$ 724,305
Unsecured senior notes payable	549,794	84,959
Unsecured senior line of credit	413,000	370,000
Unsecured senior bank term loans	1,350,000	1,600,000
Accounts payable, accrued expenses, and tenant security deposits	376,785	325,393
Dividends payable	39,468	36,579
Total liabilities	3,448,397	3,141,236
Commitments and contingencies		
Redeemable noncontrolling interests	15,610	16,034
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
Series C Preferred Stock		129,638
Series D Convertible Preferred Stock	250,000	250,000
Series E Preferred Stock	130,000	
Common stock	632	616
Additional paid-in capital	3,094,987	3,028,558
Accumulated other comprehensive loss	(19,729)	(34,511)
Alexandria Real Estate Equities, Inc.'s stockholders' equity	3,455,890	3,374,301
Noncontrolling interests	45,120	42,558
Total equity	3,501,010	3,416,859

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

Total liabilities, noncontrolling interests, and equity	\$	6,965,017	\$	6,574,129
---	----	-----------	----	-----------

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Alexandria Real Estate Equities, Inc.****Condensed Consolidated Statements of Income***(In thousands, except per share amounts)**(Unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Rental	\$ 108,367	\$ 102,353	\$ 318,247	\$ 309,532
Tenant recoveries	34,448	33,226	99,006	95,270
Other income	2,640	2,475	14,650	4,178
Total revenues	145,455	138,054	431,903	408,980
Expenses:				
Rental operations	44,614	40,859	127,884	118,014
General and administrative	12,485	10,289	35,152	30,528
Interest	17,094	14,273	51,243	48,621
Depreciation and amortization	47,176	38,747	140,778	113,326
Total expenses	121,369	104,168	355,057	310,489
Income from continuing operations before loss on early extinguishment of debt	24,086	33,886	76,846	98,491
Loss on early extinguishment of debt		(2,742)	(2,225)	(6,485)
Income from continuing operations	24,086	31,144	74,621	92,006
(Loss) income from discontinued operations:				
Income from discontinued operations before impairment of real estate	4,018	2,799	10,035	8,873
Impairment of real estate	(9,799)	(994)	(9,799)	(994)
(Loss) income from discontinued operations, net	(5,781)	1,805	236	7,879
Gain on sale of land parcel		46	1,864	46
Net income	18,305	32,995	76,721	99,931
Net income attributable to noncontrolling interests	828	966	2,390	2,833
Dividends on preferred stock	6,471	7,089	20,857	21,267
Preferred stock redemption charge			5,978	
Net income attributable to unvested restricted stock awards	360	278	866	818
Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	\$ 10,646	\$ 24,662	\$ 46,630	\$ 75,013
Earnings per share attributable to Alexandria Real Estate Equities, Inc. s common stockholders basic and diluted:				
Continuing operations	\$ 0.26	\$ 0.37	\$ 0.75	\$ 1.15
Discontinued operations, net	(0.09)	0.03		0.14

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

Earnings per share	basic and diluted	\$	0.17	\$	0.40	\$	0.75	\$	1.29
--------------------	-------------------	----	------	----	------	----	------	----	------

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Alexandria Real Estate Equities, Inc.****Condensed Consolidated Statements of Comprehensive Income***(In thousands)**(Unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 18,305	\$ 32,995	\$ 76,721	\$ 99,931
Other comprehensive income:				
Unrealized losses on marketable securities:				
Unrealized holding gains (losses) arising during the period	796	(669)	1,363	(657)
Reclassification adjustment for gains included in net income	(1,421)	(1,947)	(2,107)	(1,947)
Unrealized losses on marketable securities, net	(625)	(2,616)	(744)	(2,604)
Unrealized gains on interest rate swaps:				
Unrealized interest rate swap losses arising during the period	(2,818)	(2,822)	(9,982)	(8,077)
Reclassification adjustment for amortization of interest expense included in net income	5,956	5,381	17,626	16,121
Unrealized gains on interest rate swap agreements, net	3,138	2,559	7,644	8,044
Foreign currency translation gains (losses)	15,104	(25,814)	7,871	(19,255)
Total other comprehensive income (loss)	17,617	(25,871)	14,771	(13,815)
Comprehensive income	35,922	7,124	91,492	86,116
Less: comprehensive income attributable to noncontrolling interests	(805)	(1,024)	(2,379)	(2,885)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 35,117	\$ 6,100	\$ 89,113	\$ 83,231

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Alexandria Real Estate Equities, Inc.****Condensed Consolidated Statement of Changes in Stockholders' Equity and Noncontrolling Interests***(Dollars in thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc.'s Stockholders' Equity										
	Series C Preferred Stock	Series D Convertible Preferred Stock	Series E Preferred Stock	Number of Common Shares	Common Stock	Additional Paid- In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
Balance at December 31, 2011	\$ 129,638	\$ 250,000	\$	61,560,472	\$ 616	\$ 3,028,558	\$	\$ (34,511)	\$ 42,558	\$ 3,416,859	\$ 16,034
Net income							74,331		1,695	76,026	695
Unrealized loss on marketable securities								(744)		(744)	
Unrealized gain on interest rate swap agreements								7,644		7,644	
Foreign currency translation gain (loss)								7,882	11	7,893	(22)
Contributions by noncontrolling interests									1,626	1,626	
Distributions to noncontrolling interests									(770)	(770)	(943)
Redemption of noncontrolling interests						4				4	(154)
Issuance of common stock, net of offering costs				1,366,977	14	98,450				98,464	
Issuance of Series E Preferred Stock, net of offering costs			130,000			(5,132)				124,868	
Issuances pursuant to stock plan				233,728	2	16,086				16,088	
Redemption of Series C Preferred Stock	(129,638)					5,978	(5,978)			(129,638)	
Dividends declared on common stock							(96,103)			(96,103)	
Dividends declared on preferred stock							(21,207)			(21,207)	
Distributions in excess of earnings						(48,957)	48,957				
Balance at September 30, 2012	\$	\$ 250,000	\$ 130,000	63,161,177	\$ 632	\$ 3,094,987	\$	\$ (19,729)	\$ 45,120	\$ 3,501,010	\$ 15,610

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**Alexandria Real Estate Equities, Inc.****Condensed Consolidated Statements of Cash Flows***(In thousands)**(Unaudited)*

	Nine Months Ended September 30,	
	2012	2011
Operating Activities		
Net income	\$ 76,721	\$ 99,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	143,933	117,060
Loss on early extinguishment of debt	2,225	6,485
Gain on sale of land parcel	(1,864)	(46)
Gain on sale of real estate	(1,564)	
Non-cash impairment of real estate	9,799	994
Amortization of loan fees and costs	7,327	6,749
Amortization of debt premiums/discounts	401	3,254
Amortization of acquired above and below market leases	(2,356)	(8,520)
Deferred rent	(19,216)	(17,239)
Stock compensation expense	10,412	8,449
Equity in loss related to investments	26	
Gain on sales of investments	(12,316)	(3,555)
Loss on sales of investments	1,607	1,240
Changes in operating assets and liabilities:		
Restricted cash	441	489
Tenant receivables	(2,637)	(1,328)
Deferred leasing costs	(23,597)	(51,581)
Other assets	(3,230)	(8,735)
Accounts payable, accrued expenses, and tenant security deposits	41,378	26,325
Net cash provided by operating activities	227,490	179,972
Investing Activities		
Proceeds from sale of property	36,179	17,339
Distributions from unconsolidated real estate entity related to sale of land parcel	22,250	
Additions to properties	(406,066)	(293,688)
Purchase of properties	(42,171)	(307,839)
Change in restricted cash related to construction projects	(11,453)	(2,891)
Contributions to unconsolidated real estate entity	(5,042)	(3,256)
Additions to investments	(21,997)	(19,663)
Proceeds from investments	19,905	14,496
Net cash used in investing activities	(408,395)	(595,502)

Table of Contents
Alexandria Real Estate Equities, Inc.
Condensed Consolidated Statements of Cash Flows (continued)
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Financing Activities		
Borrowings from secured notes payable	\$ 2,874	\$ (30,181)
Repayments of borrowings from secured notes payable	(8,125)	(30,181)
Proceeds from issuance of unsecured senior notes payable	544,649	
Repurchase of unsecured senior convertible notes	(84,801)	(221,439)
Principal borrowings from unsecured senior line of credit and unsecured senior bank term loans	623,147	1,990,317
Repayments of borrowings from unsecured senior line of credit	(580,147)	(1,174,317)
Repayment of unsecured senior bank term loan	(250,000)	(500,000)
Redemption of Series C Preferred Stock	(129,638)	
Proceeds from issuance of Series E Preferred Stock	124,868	
Proceeds from issuance of common stock	98,443	451,539
Change in restricted cash related to financings	(10,476)	2,591
Deferred financing costs paid	(20,417)	(20,268)
Proceeds from exercise of stock options	155	1,165
Dividends paid on common stock	(92,743)	(77,787)
Dividends paid on preferred stock	(21,348)	(21,268)
Distributions to redeemable noncontrolling interests	(943)	(939)
Redemption of redeemable noncontrolling interests	(150)	
Contributions by noncontrolling interests	1,626	
Distributions to noncontrolling interests	(770)	(2,084)
Net cash provided by financing activities	196,204	397,329
Effect of exchange rate changes on cash and cash equivalents	1,066	25
Net increase (decrease) in cash and cash equivalents	16,365	(18,176)
Cash and cash equivalents at beginning of period	78,539	91,232
Cash and cash equivalents at end of period	\$ 94,904	\$ 73,056
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	\$ 30,952	\$ 38,013
Non-Cash Investing Activities		
Note receivable from sale of real estate	\$ (6,125)	\$

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Alexandria Real Estate Equities, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Background

As used in this quarterly report on Form 10-Q, references to the Company, Alexandria, we, our, and us refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

Alexandria Real Estate Equities, Inc. (NYSE: ARE), a self-administered and self-managed real estate investment trust (REIT), is the largest and leading investment-grade REIT focused principally on owning, operating, developing, redeveloping, and acquiring high-quality, sustainable real estate for the broad and diverse life science industry. Founded in 1994, Alexandria was the first REIT to identify and pursue the laboratory niche and has since had the first-mover advantage in the core life science cluster locations, including Greater Boston, San Francisco Bay, San Diego, New York City, Seattle, Suburban Washington, D.C., and Research Triangle Park. Alexandria's high-credit client tenants span the life science industry, including renowned academic and medical institutions, multinational pharmaceutical companies, public and private biotechnology entities, United States government research agencies, medical device companies, industrial biotech companies, venture capital firms, and life science product and service companies. As the recognized real estate partner of the life science industry, Alexandria has a superior track record in driving client tenant productivity and innovation through its best-in-class laboratory and office space, collaborative locations adjacent to leading academic and medical institutions, unparalleled life science real estate expertise and services, and longstanding and expansive network in the life science community, which we believe result in higher occupancy levels, longer lease terms, higher rental income, higher returns, and greater long-term asset value. For additional information on Alexandria Real Estate Equities, Inc., please visit www.are.com.

2. Basis of presentation

We have prepared the accompanying interim condensed consolidated financial statements in accordance with United States generally accepted accounting principles (GAAP) and in conformity with the rules and regulations of the Securities and Exchange Commission (SEC). In our opinion, the interim condensed consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the interim condensed consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2011.

The accompanying condensed consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

We hold interests, together with certain third parties, in companies that we consolidate in our financial statements. We consolidate the companies because we exercise significant control over major decisions of these entities, such as investing activity and changes in financing.

Use of estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity, the disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements, and the amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Table of Contents

2. Basis of presentation (continued)

Investments in real estate, net, and discontinued operations

We recognize assets acquired (including the intangible value of above or below market leases, acquired in-place leases, client tenant relationships, and other intangible assets or liabilities), liabilities assumed, and any noncontrolling interest in an acquired entity at their fair value as of the acquisition date. If there is a bargain fixed rate renewal option for the period beyond the non-cancelable lease term, we evaluate factors such as the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease the property during the renewal term, in order to determine the likelihood that the lessee will renew. When we determine there is reasonable assurance such bargain purchase option will be exercised, we consider its impact in determining the intangible value of such lease and its related amortization period. The value of tangible assets acquired is based upon our estimation of value on an as if vacant basis. The value of acquired in-place leases includes the estimated carrying costs during the hypothetical lease-up period and other costs that would have been incurred to execute similar leases, considering market conditions at the acquisition date of the acquired in-place lease. We assess the fair value of tangible and intangible assets based on numerous factors, including estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors, including the historical operating results, known trends, and market/economic conditions that may affect the property. We also recognize the fair values of assets acquired, the liabilities assumed, and any noncontrolling interest in acquisitions of less than a 100% interest when the acquisition constitutes a change in control of the acquired entity. Acquisition-related costs and restructuring costs are expensed as incurred.

The values allocated to land improvements, tenant improvements, equipment, buildings, and building improvements are depreciated on a straight-line basis using an estimated life of 20 years for land improvements, the respective lease term for tenant improvements, the estimated useful life for equipment, and the shorter of the term of the respective ground lease and up to 40 years for buildings and building improvements. The values of acquired above and below market leases are amortized over the lives of the related leases and recorded as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The values of acquired in-place leases are included in other assets in the accompanying condensed consolidated balance sheets, and amortized over the remaining terms of the related leases.

We are required to capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance, and other costs directly related and essential to the acquisition, development, redevelopment, or construction of a project. Capitalization of development, redevelopment, and construction costs is required while activities are ongoing to prepare an asset for its intended use. Fluctuations in our development, redevelopment, and construction activities could result in significant changes to total expenses and net income. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Should development, redevelopment, or construction activity cease, interest, property taxes, insurance, and certain other costs would no longer be eligible for capitalization and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

A property is classified as held for sale when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the property; (2) the property is available for immediate sale in its present condition, subject only to terms that are usual and customary; (3) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (4) the sale of the property is probable and is expected to be completed within one year; (5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and (6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as held for sale; its operations, including any interest expense directly attributable to it, are classified as discontinued operations in our condensed consolidated statements of income; and amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. Depreciation of assets ceases upon designation of a property as held for sale.

Long-lived assets to be held and used, including our rental properties, land held for future development, construction in progress, and intangibles, are individually evaluated for impairment when conditions exist that may indicate that the carrying amount of a long-lived asset may not be recoverable. The carrying amount of a long-lived asset to be held and used is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment indicators for long-lived assets to be held and used, including our rental properties, land held for future development, and construction in progress, are assessed by project and include, but are not limited to, significant fluctuations in estimated net operating income, occupancy changes, construction costs, estimated completion dates, rental rates, and other market factors. We assess the expected undiscounted cash flows based upon numerous factors, including, but not limited to, construction costs, available market information, historical operating results, known trends, market/economic conditions that may affect the property, and our assumptions about the use of the asset, including, if necessary, a probability-weighted approach if multiple outcomes are under consideration. Upon

Table of Contents

2. Basis of presentation (continued)

determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount to its estimated fair value. If an impairment loss is not required to be recorded, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying amount of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We may adjust depreciation of properties that are expected to be disposed of or redeveloped prior to the end of their useful lives.

We use a held for sale impairment model for our properties classified as held for sale. The held for sale impairment model is different from the held and used impairment model. Under the held for sale impairment model, an impairment loss is recognized if the carrying amount of the long-lived asset classified as held for sale exceeds its fair value less cost to sell.

Investments

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. All of our investments in actively traded public companies are considered available for sale and are recorded at fair value. Fair value has been determined based upon the closing price as of each balance sheet date, with unrealized gains and losses shown as a separate component of comprehensive income. The classification of each investment is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of each investment sold is determined by the specific identification method, with net realized gains or losses included in other income. Investments in privately held entities are generally accounted for under the cost method when our interest in the entity is so minor that we have virtually no influence over the entity's operating and financial policies. Additionally, we limit our ownership percentage in the voting stock of each individual entity to less than 10%. As of September 30, 2012, and December 31, 2011, our ownership percentage in the voting stock of each individual entity was less than 10%.

Individual investments are evaluated for impairment when changes in conditions may indicate an impairment exists. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, available financing, prospects for favorable or unfavorable clinical trial results, new product initiatives, and new collaborative agreements. If there are no identified events or changes in circumstances that would have an adverse effect on our cost method investments, we do not estimate the investment's fair value. For all of our investments, if a decline in the fair value of an investment below the carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash charge to current earnings. For a description of the methodology we use to determine the fair value of privately held entities, refer to Note 7, Fair Value of Financial Instruments.

Income taxes

We are organized and qualify as a REIT pursuant to the Internal Revenue Code of 1986, as amended (the Code). Under the Code, a REIT that distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and that meets certain other conditions is not subject to federal income taxes, but is subject to certain state and local taxes. We generally distribute 100% or more of our taxable income. Therefore, no provision for federal income taxes is required. We file tax returns, including returns for our subsidiaries, with federal, state, and local jurisdictions, including jurisdictions located in the United States, Canada, India, China, and other international locations. Our tax returns are subject to examination in various jurisdictions for the calendar years 2007 through 2011.

We recognize tax benefits of uncertain tax positions only if it is more likely than not that the tax position will be sustained, based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The measurement of a tax benefit for an uncertain tax position that meets the more likely than not threshold is based on a cumulative probability model under which the largest amount of tax benefit recognized is the amount with a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all the relevant information. As of September 30, 2012, there were no unrecognized tax benefits. We do not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

Interest expense and penalties, if any, would be recognized in the first period the interest or penalty would begin accruing, according to the provisions of the relevant tax law at the applicable statutory rate of interest. We did not incur any tax-related interest expense or penalties for the three and nine months ended September 30, 2012 and 2011.

Table of Contents

2. Basis of presentation (continued)

Interest income

Interest income was approximately \$1.0 million and \$0.2 million during the three months ended September 30, 2012 and 2011, respectively. Interest income was approximately \$2.5 million and \$0.3 million during the nine months ended September 30, 2012 and 2011, respectively. Interest income is classified in other income in the accompanying condensed consolidated statements of income.

Recognition of rental income and tenant recoveries

Rental income from leases with scheduled rent increases, free rent, incentives, and other rent adjustments is recognized on a straight-line basis over the respective lease terms. We include amounts currently recognized as income, and expected to be received in later years, as an asset in deferred rent in the accompanying condensed consolidated balance sheets. Amounts received currently, but recognized as income in future years, are included in accounts payable, accrued expenses, and tenant security deposits in the accompanying condensed consolidated balance sheets. We commence recognition of rental income at the date the property is ready for its intended use and the client tenant takes possession of or controls the physical use of the property.

Tenant recoveries related to reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, and other operating expenses are recognized as revenue in the period in which the applicable expenses are incurred.

We maintain an allowance for estimated losses that may result from the inability of our client tenants to make payments required under the terms of the lease and for tenant recoveries due. If a client tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and unrealized deferred rent. As of September 30, 2012, and December 31, 2011, we had no allowance for estimated losses.

As of September 30, 2012, approximately 94% of our leases (on a rentable square footage basis) were triple net leases, requiring client tenants to pay substantially all real estate taxes, insurance, utilities, common area expenses, and other operating expenses (including increases thereto) in addition to base rent. Approximately 96% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed or based on a consumer price index or another index. Additionally, approximately 91% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures.

Impact of recently issued accounting standards

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

In May 2011, the FASB issued an Accounting Standards Update (ASU) to substantially converge the guidance in GAAP and International Financial Reporting Standards (IFRS) on fair value measurements and disclosures. The ASU changes several aspects of the fair value measurement guidance in FASB Accounting Standards Codification 820, Fair Value Measurement, including (1) the application of the concepts of highest and best use and valuation premise; (2) the introduction of an option to measure groups of offsetting assets and liabilities on a net basis; (3) the incorporation of certain premiums and discounts in fair value measurements; and (4) the measurement of the fair value of certain instruments classified in stockholders' equity. In addition, the ASU includes several new fair value disclosure requirements, such as information about valuation techniques and significant unobservable inputs used in fair value measurements and a narrative description of the fair value measurements' sensitivity to changes in significant unobservable inputs. The ASU is effective for public companies during the interim and annual periods, beginning after December 15, 2011. We adopted the ASU as of January 1, 2012. The adoption of the ASU did not impact our condensed consolidated financial statements or related disclosures.

In June 2011, the FASB issued an ASU to make presentation of items within other comprehensive income (OCI) more prominent. Entities are required to present items of net income, items of OCI, and total comprehensive income either in a single continuous statement or in two separate but consecutive statements. There no longer exists the option to present OCI in the statement of changes in stockholders' equity. In December 2011, the FASB decided to defer the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income (AOCI) in both net income and OCI on the face of the financial statements. Reclassifications out of AOCI will be either presented on the face of the financial statement in which OCI is presented or disclosed in the notes to the financial statements. This deferral does not change the requirement to present items of net income, items of OCI, and total comprehensive income in either one continuous statement or two separate consecutive statements. The ASU is effective for public companies during the interim and annual periods, beginning after December 15, 2011. We adopted this guidance as of January 1, 2012, and have presented the condensed consolidated statements of comprehensive income separately from the condensed consolidated statements of income.

Table of Contents

3. Investments in real estate

Our investments in real estate, net, consisted of the following as of September 30, 2012, and December 31, 2011 (in thousands):

	September 30, 2012 Book Value	December 31, 2011 Book Value
Land (related to rental properties)	\$ 506,823	\$ 510,630
Buildings and building improvements	4,682,998	4,417,093
Other improvements	184,301	185,036
Rental properties	5,374,122	5,112,759
Less: accumulated depreciation	(854,332)	(742,535)
Rental properties, net	4,519,790	4,370,224
Construction in progress (CIP)/current value-added projects:		
Active development in North America	304,619	198,644
Active redevelopment in North America	277,506	281,555
Generic infrastructure/building improvement projects in North America	72,739	92,338
Active development and redevelopment in Asia	95,301	106,775
	750,165	679,312
Subtotal	5,269,955	5,049,536
Land/future value-added projects:		
Land held for future development in North America	326,932	305,981
Land undergoing preconstruction activities (additional CIP) in North America	597,631	574,884
Land held for future development/land undergoing preconstruction activities (additional CIP) in Asia	78,511	35,697
	1,003,074	916,562
Investment in unconsolidated real estate entity	26,998	42,342
Investments in real estate, net	\$ 6,300,027	\$ 6,008,440

Land held for future development represents real estate we plan to develop in the future but on which, as of each period presented, no construction or preconstruction activities were ongoing. As a result, interest, property taxes, insurance, and other costs are expensed as incurred. As of September 30, 2012, and December 31, 2011, we held land in North America supporting an aggregate of 5.5 million and 4.8 million rentable square feet of future ground-up development, respectively. Additionally, as of September 30, 2012, and December 31, 2011, we held land undergoing preconstruction activities in North America totaling 2.4 million and 2.7 million rentable square feet, respectively. Land undergoing preconstruction activities (consisting of Building Information Modeling [BIM or 3-D virtual modeling], design development and construction drawings, sustainability and energy optimization review, budgeting, planning for future site and infrastructure work, and other activities prior to commencement of vertical construction of aboveground shell and core improvements) that are also classified as construction in progress. Our objective with preconstruction is to reduce the time it takes to deliver projects to prospective client tenants. Project costs are capitalized as a cost of the project during periods when activities necessary to prepare an asset for its intended use are in progress. We generally will not commence ground-up development of any parcels undergoing preconstruction activities without first securing pre-leasing for such space. If vertical aboveground construction is not initiated at completion of preconstruction activities, the land parcel will be classified as land held for future development. The two largest projects included in land undergoing preconstruction consist of our 1.6 million developable square feet at Alexandria Center at Kendall Square in East Cambridge, Massachusetts, and our 419,806 developable square feet site for the West Tower of the Alexandria Center for Life Science New York City.

Table of Contents

3. Investments in real estate (continued)

Real estate asset sales

The following table summarizes our real estate asset disposition activities for the nine months ended September 30, 2012 (dollars in thousands, except per square foot amounts):

Description	Location	Date of Sale	Rentable/ Developable Square Feet	Sales Price per SF	Sales Price (1)	Gain on Sale
<i>Land parcels and assets with a previous operating component:</i>						
1201/1209 Mercer Street (2)	Seattle	September 2012	76,029	\$ 73	\$ 5,570	\$ 54
801 Dexter Avenue North (2)	Seattle	August 2012	120,000	\$ 72	8,600	\$ 55
Land parcel	Greater Boston	March 2012	(3)	\$ 275	31,360	\$ 1,864
Sale of land parcels and assets with a previous operating component					45,530	
<i>Income-producing properties:</i>						
200 Lawrence Drive/210 Welsh Pool Road	Pennsylvania	July 2012	210,866	\$ 94	19,750	(4) \$ 103
155 Fortune Boulevard (5)	Route 495/Worcester	July 2012	36,000	\$ 222	8,000	\$ 1,350
5110 Campus Drive (5)	Pennsylvania	May 2012	21,000	\$ 86	1,800	\$ 2
Sales of income-producing properties					29,550	
Total					\$ 75,080	

(1) Represents contractual sales price for assets sold or contractual/estimated sale price for sales in process.

(2) Properties sold to residential developers.

(3) In March 2012, we sold one-half of our 55% interest in a land parcel supporting a project with 414,000 rentable square feet for approximately \$31.4 million, or approximately \$275 per rentable square foot.

(4) Sales price reflects the near-term lease expiration of a client tenant occupying 38,513 rentable square feet, or 18% of the total rentable square feet, on the date of sale. In connection with the sale, we received an interest-only secured note receivable for \$6.1 million due in 2018.

(5) Properties were sold to client tenants.

Impairment of real estate assets held for sale

In September 2012, four properties aggregating 504,130 rentable square feet met the classification requirements for held for sale. During the three months ended September 30, 2012, we recorded impairment charges aggregating approximately \$9.8 million to reduce the aggregate carrying value of the properties to the estimated sales price less costs to sell. We used the preliminary sales price estimates based on offers from prospective buyers as a significant observable input (level 2) within the valuation hierarchy to determine the estimated fair value of these assets.

Table of Contents

3. Investments in real estate (continued)

Sale of land parcel

In March 2012, we contributed our 55% ownership interest in a land parcel supporting a future building with 414,000 rentable square feet in the Longwood Medical Area of the Greater Boston market to a newly formed joint venture (the Restated JV) with National Development and Charles River Realty Investors, and admitted as a 50% member Clarion Partners, LLC, resulting in a reduction of our ownership interest from 55% to 27.5%. The transfer of one-half of our 55% ownership interest in this real estate venture to Clarion Partners, LLC, was accounted for as an in-substance partial sale of an interest in the underlying real estate. In connection with the sale of one-half of our 55% ownership interest in the land parcel, we received a special distribution of approximately \$22.3 million, which included the recognition of a \$1.9 million gain on sale of land and approximately \$5.4 million from our share of loan refinancing proceeds. The land parcel we sold in March 2012 did not meet the criteria for discontinued operations since the parcel did not have any significant operations prior to disposition. Pursuant to the presentation and disclosure literature on gains/losses on sales or disposals by REITs required by the Securities and Exchange Commission (SEC), gains or losses on sales or disposals by a REIT that do not qualify as discontinued operations are classified below (loss) income from discontinued operations in the income statement. Accordingly, we classified the \$1.9 million gain on sale of land below (loss) income from discontinued operations, net, in the condensed consolidated statements of income. Our 27.5% share of the land was sold at approximately \$31 million (including closing costs), or approximately \$275 per rentable square foot. Upon formation of the Restated JV, the existing \$38.4 million secured loan was refinanced with a seven-year (including two one-year extension options) non-recourse \$213 million secured construction loan with initial loan proceeds of \$50 million. As of September 30, 2012, the outstanding balance on the construction loan was \$56.4 million. We do not expect our share of capital contributions through the completion of the project to exceed the approximate \$22.3 million in net proceeds received in this transaction. Construction of this \$350 million project commenced in April 2012. The initial occupancy date for this project is expected to be in the fourth quarter of 2014. The project is 37% pre-leased to Dana-Farber Cancer Institute, Inc. In addition, Dana-Farber Cancer Institute, Inc. has an option to lease an additional two floors approximating 99,000 rentable square feet, or 24% of the total rentable square feet of the project. In addition to our economic share of the joint venture, we also expect to earn development and other fees of approximately \$3.5 million through 2015, and recurring annual property management fees thereafter, from this project.

We do not qualify as the primary beneficiary of the Restated JV since we do not have the power to direct the activities of the entity that most significantly impacts its economic performance. The decisions that most significantly impact the entity's economic performance require both our consent and that of our partners for all major operating, investing, and financing decisions, as well as decisions involving major expenditures. As of September 30, 2012, and December 31, 2011, our investment in the unconsolidated real estate entity of approximately \$27.0 million and \$42.3 million, respectively, was classified as an investment in real estate in the accompanying condensed consolidated balance sheets.

Our investment in the unconsolidated real estate entity is adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to this entity are allocated in accordance with the operating agreement. When circumstances indicate that there may have been a reduction in value of an equity investment, we evaluate the equity investment and any advances made for impairment by estimating our ability to recover our investment from future expected cash flows. If we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the equity investment and any advances made at fair value.

Table of Contents**4. Investments**

We hold equity investments in certain publicly traded companies and privately held entities primarily involved in the life science industry. Investments in available for sale securities with gross unrealized losses as of September 30, 2012, had been in a continuous unrealized loss position for less than 12 months. We have the ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of our investment. We believe that these unrealized losses are temporary, and accordingly we have not recognized an other-than-temporary impairment related to available for sale securities as of September 30, 2012. As of September 30, 2012, and December 31, 2011, there were no unrealized losses in our investments in privately held entities.

The following table summarizes our investments in securities (in thousands):

	September 30, 2012	December 31, 2011
Available-for-sale securities, cost basis	\$ 3,472	\$ 2,401
Gross unrealized gains	3,189	4,206
Gross unrealized losses	(98)	(372)
Available-for-sale securities, at fair value	6,563	6,235
Investments accounted for under cost method	101,239	89,510
Investments accounted for under equity method	6	32
Total investments	\$ 107,808	\$ 95,777

5. Secured and unsecured senior debt

The following table summarizes our secured and unsecured senior debt and their respective principal maturities, as of September 30, 2012 (in thousands):

	Fixed Rate/Hedged Variable Rate	Unhedged Variable Rate	Total Consolidated	Percentage of Total	Weighted Average Interest Rate at End of Period (1)	Weighted Average Remaining Term (Years)
Secured notes payable (2)	\$ 640,815	\$ 78,535	\$ 719,350	23.7%	5.76%	3.2
Unsecured senior notes payable (2)	549,794		549,794	18.1	4.61	9.5
Unsecured senior line of credit (3)	50,000	363,000	413,000	13.6	1.46	4.6
2016 Unsecured Senior Bank Term Loan (4)	750,000		750,000	24.8	3.12	3.8
2017 Unsecured Senior Bank Term Loan (5)	600,000		600,000	19.8	3.84	4.3
Total debt	\$ 2,590,609	\$ 441,535	\$ 3,032,144	100.0%	3.93%	4.9
Percentage of total debt	85%	15%	100%			

(1) Represents the contractual interest rate as of the end of the period plus the impact of debt premiums/discounts and our interest rate hedge agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

- (2) Represents amounts net of unamortized premiums/discounts.
- (3) Total commitments available for borrowing aggregate \$1.5 billion under our unsecured senior line of credit. As of September 30, 2012, we had approximately \$1.1 billion available for borrowings under our unsecured senior line of credit. Weighted average remaining term assumes we exercise our sole option to extend the stated maturity date of April 30, 2016, by six months, twice, to April 30, 2017.
- (4) Assumes we exercise our sole option to extend the stated maturity date of June 30, 2015, by one year, to June 30, 2016.
- (5) Assumes we exercise our sole option to extend the stated maturity date of January 31, 2016, by one year, to January 31, 2017.

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

Table of Contents

5. Secured and unsecured senior debt (continued)

The following table summarizes fixed rate/hedged variable and unhedged variable rate debt and their respective principal maturities, as of September 30, 2012 (in thousands):

Debt	Stated Rate	Effective Interest Rate (1)	Maturity Date	2012	2013	2014	2015	2016	Thereafter	Total
Secured notes payable										
San Diego	6.21%	6.21%	3/1/13	\$ 78	\$ 7,934	\$	\$	\$	\$	\$ 8,012
Suburban Washington, D.C.	6.36	6.36	9/1/13	135	26,093					26,228
San Francisco Bay	6.14	6.14	11/16/13		7,527					7,527
Greater Boston	5.26	5.59	4/1/14	929	3,839	208,683				213,451
Suburban Washington, D.C.	2.33	2.33	4/20/14			76,000				76,000
San Diego	6.05	4.88	7/1/14	22	142	6,458				6,622
San Diego	5.39	4.00	11/1/14	29	177	7,495				7,701
Seattle	6.00 (2)	6.00	11/18/14	60	240	240				540
Suburban Washington, D.C.	5.64	4.50	6/1/15	21	130	138	5,788			6,077
San Francisco Bay	LIBOR+1.50	1.74	7/1/15 (3)				1,995			1,995
Greater Boston, San Francisco Bay, and San Diego	5.73	5.73	1/1/16	393	1,616	1,713	1,816	75,501		81,039
Greater Boston, San Diego, and Greater NYC	5.82	5.82	4/1/16	208	878	931	988	29,389		32,394
San Francisco Bay	6.35	6.35	8/1/16	542	2,332	2,487	2,652	126,715		134,728
San Diego, Suburban Washington, D.C., and Seattle	7.75	7.75	4/1/20	320	1,345	1,453	1,570	1,696	110,301	116,685
San Francisco Bay	6.50	6.50	6/1/37	4	16	17	17	19	801	874
Average/Total	5.70%	5.76		2,741	52,269	305,615	14,826	233,320	111,102	719,873
\$1.5 billion unsecured senior line of credit										
	LIBOR+1.20%(4)	1.46	4/30/17 (5)						413,000	413,000
2016 Unsecured Senior Bank Term Loan										
	LIBOR+1.75%	3.12	6/30/16 (6)					750,000		750,000
2017 Unsecured Senior Bank Term Loan										
	LIBOR+1.50%	3.84	1/31/17 (7)						600,000	600,000
Unsecured senior notes payable (8)										
	4.60%	4.61	4/1/22			250			550,000	550,250
Average/Subtotal		3.93		2,741	52,269	305,865	14,826	983,320	1,674,102	3,033,123
Unamortized discounts										
				(112)	(464)	(78)	(12)	(44)	(269)	(979)
Average/Total		3.93%		\$ 2,629	\$ 51,805	\$ 305,787	\$ 14,814	\$ 983,276	\$ 1,673,833	\$ 3,032,144
Balloon payments										
Principal amortization				\$	\$ 41,165	\$ 297,330	\$ 7,723	\$ 980,029	\$ 1,666,791	\$ 2,993,038
				2,629	10,640	8,457	7,091	3,247	7,042	39,106

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

Total consolidated debt	\$	2,629	\$	51,805	\$	305,787	\$	14,814	\$	983,276	\$	1,673,833	\$	3,032,144
Fixed rate/hedged variable rate debt	\$	2,569	\$	51,565	\$	229,547	\$	12,819	\$	983,276	\$	1,310,833	\$	2,590,609
Unhedged variable rate debt		60		240		76,240		1,995				363,000		441,535
Total consolidated debt	\$	2,629	\$	51,805	\$	305,787	\$	14,814	\$	983,276	\$	1,673,833	\$	3,032,144

- (1) Represents the contractual interest rate as of the end of the period plus the impact of debt premiums/discounts and our interest rate hedge agreements. The weighted average interest rate excludes bank fees and amortization of loan fees.
- (2) Represents a loan assumed with the acquisition of a property. The interest rate is based upon 10 year U.S. treasury bills plus 3%, with a floor of 6% and a ceiling of 8.5%.
- (3) We have an option to extend the stated maturity date of July 1, 2015, by one year, twice, to July 1, 2017.
- (4) In addition to the stated rate, we are subject to an annual facility fee of 0.25%.
- (5) Assumes we exercise our sole option to extend the stated maturity date of April 30, 2016, by six months, twice, to April 30, 2017.
- (6) Assumes we exercise our sole option to extend the stated maturity date of June 30, 2015, by one year, to June 30, 2016.
- (7) Assumes we exercise our sole option to extend the stated maturity date of January 31, 2016, by one year, to January 31, 2017.
- (8) Includes \$550 million of our 4.60% unsecured senior notes payable due in April 2022, and \$250,000 of our 8.00% unsecured senior convertible notes payable with a maturity date of April 15, 2014.

In June 2012, we closed a secured construction loan with aggregate commitments of \$55.0 million. The construction loan matures in July 2015, and we have an option to extend the stated maturity date of July 1, 2015, by one year, twice, to July 1, 2017. The construction loan will be used to fund the majority of the cost to complete the development of a 100% pre-leased life science laboratory building with 170,618 rentable square feet at 259 East Grand Avenue in the San Francisco Bay market. The construction loan bears interest at the London Interbank Offered Rate (LIBOR) or the base rate specified in the construction loan agreement, defined as the higher of either the prime rate being offered by our lender or the federal funds rate in effect on the day of borrowing (Base Rate), plus in either case a specified margin of 1.50% for LIBOR borrowings or 0.25% for Base Rate borrowings. As of September 30, 2012, commitments of \$53.0 million were available.

Table of Contents

5. Secured and unsecured senior debt (continued)

4.60% Unsecured senior notes payable

In February 2012, we completed a \$550 million public offering of our unsecured senior notes payable at a stated interest rate of 4.60%. The unsecured senior notes payable were priced at 99.915% of the principal amount with a yield to maturity of 4.61% and are due April 1, 2022. The unsecured senior notes payable are unsecured obligations of the Company and are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P., a 100% owned subsidiary of the Company. The unsecured senior notes payable rank equally in right of payment with all other senior unsecured indebtedness. However, the unsecured senior notes payable are effectively subordinated to existing and future mortgages and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness) and to all existing and future preferred equity and liabilities, whether secured or unsecured, of the Company's subsidiaries, other than Alexandria Real Estate Equities, L.P. We used the net proceeds of this offering to prepay the outstanding principal balance of \$250.0 million on our unsecured senior bank term loan (2012 Unsecured Senior Bank Term Loan) and to reduce the outstanding borrowings on our unsecured senior line of credit.

The requirements of the key financial covenants under our unsecured senior notes payable as of September 30, 2012, are as follows:

Covenant Ratios (1)	Requirement
Total Debt to Total Assets	Less than or equal to 60%
Consolidated EBITDA to Interest Expense	Greater than or equal to 1.5x
Unencumbered Total Asset Value to Unsecured Debt	Greater than or equal to 150%
Secured Debt to Total Assets	Less than or equal to 40%

(1) For a definition of the ratios used in the table above, refer to the Indenture dated February 29, 2012, which governs the unsecured senior notes payable, which was filed as an exhibit to our Current Report on Form 8-K filed with the SEC on February 29, 2012.

In addition, the terms of the Indenture, among other things, limit the ability of the Company, Alexandria Real Estate Equities, L.P., and the Company's other subsidiaries to (1) consummate a merger, or consolidate or sell all or substantially all of the Company's assets, and (2) incur certain secured or unsecured indebtedness.

Unsecured senior line of credit and unsecured senior bank term loans

In April 2012, we amended our \$1.5 billion unsecured senior line of credit, with Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities Inc., and Citigroup Global Markets Inc. as joint lead arrangers, and certain lenders, to extend the maturity date of our unsecured senior line of credit, provide an accordion option for up to an additional \$500 million, and reduce the interest rate for outstanding borrowings. The maturity date of the unsecured senior line of credit was extended to April 2017, assuming we exercise our sole right to extend the maturity date twice by an additional six months after each exercise. Borrowings under the unsecured senior line of credit bear interest at LIBOR or the base rate specified in the amended unsecured senior line of credit and unsecured senior bank term loan agreements, plus in either case a specified margin (the Applicable Margin). The Applicable Margin for LIBOR borrowings under the unsecured senior line of credit was

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

set at 1.20%, down from 2.40% in effect immediately prior to the modification. In addition to the Applicable Margin, our unsecured senior line of credit is subject to an annual facility fee of 0.25%. In connection with the modification of our unsecured senior line of credit in April 2012, we recognized a loss on early extinguishment of debt of approximately \$1.6 million related to the write-off of a portion of unamortized loan fees.

In April 2012, we amended our 2016 unsecured senior bank term loan (2016 Unsecured Senior Bank Term Loan) and 2017 unsecured senior bank term loan (2017 Unsecured Senior Bank Term Loan), conforming the financial covenants contained in our unsecured senior bank term loan agreements to those contained in our amended \$1.5 billion unsecured senior line of credit.

In February 2012, we recognized a loss on early extinguishment of debt of approximately \$0.6 million related to the write-off of unamortized loan fees as a result of the early repayment of \$250.0 million of our 2012 Unsecured Senior Bank Term Loan. In June 2011, we recognized a loss on early extinguishment of debt of approximately \$1.2 million related to the write-off of unamortized loan fees as a result of the early repayment of \$500 million of our 2012 Unsecured Senior Bank Term Loan.

Table of Contents**5. Secured and unsecured senior debt (continued)**

The requirements of the key financial covenants under our unsecured senior line of credit and unsecured senior bank term loans as of September 30, 2012, are as follows:

	Covenant Ratios (1)	Requirement
Leverage Ratio		Less than or equal to 60.0%
Fixed Charge Coverage Ratio		Greater than or equal to 1.50x
Secured Debt Ratio		Less than or equal to 40.0%
Unsecured Leverage Ratio		Less than or equal to 60.0%
Unsecured Interest Coverage Ratio		Greater than or equal to 1.75x

- (1) For a definition of the ratios used in the table above, refer to the amended unsecured senior line of credit and unsecured senior bank term loan agreements, dated as of April 30, 2012, which are filed as exhibits to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2012.

In addition, the terms of the unsecured senior line of credit and unsecured senior bank term loan agreements, among other things, limit the ability of the Company, Alexandria Real Estate Equities, L.P., and the Company's subsidiaries to (1) consummate a merger, or consolidate or sell all or substantially all of the Company's assets, and (2) incur certain secured or unsecured indebtedness.

Unsecured senior convertible notes

The following tables summarize the balances, significant terms, and components of interest cost recognized (excluding amortization of loan fees and before the impact of capitalized interest) on our unsecured senior convertible notes (dollars in thousands):

	8.00% Unsecured Senior Convertible Notes		3.70% Unsecured Senior Convertible Notes	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
Principal amount	\$ 250	\$ 250	\$ 84,801	
Unamortized discount	(10)	(15)	(77)	
Net carrying amount of liability component	\$ 240	\$ 235	\$ 84,724	
Carrying amount of equity component	\$ 27	\$ 27	\$ 8,080	
Number of shares on which the aggregate consideration to be delivered on conversion is determined	6,087	6,087	N/A	N/A (1)
Issuance date	April 2009		N/A	
Stated interest rate	8.00%		N/A	
Effective interest rate at September 30, 2012	11.00%		N/A	
	24.3480		N/A	

Conversion rate per \$1,000 principal value of
unsecured senior convertible notes, as adjusted,
as of September 30, 2012

(1) Our 3.70% unsecured senior convertible notes (3.70% Unsecured Senior Convertible Notes) require that upon conversion, the entire principal amount is to be settled in cash, and any excess value above the principal amount, if applicable, is to be settled in shares of our common stock. Based on the December 31, 2011, closing price of our common stock of \$68.97, and the conversion price of our 3.70% Unsecured Senior Convertible Notes of \$117.36 as of December 31, 2011, the if-converted value of the notes did not exceed the principal amount as of December 31, 2011, and accordingly, no shares of our common stock would have been issued if the notes had been settled on December 31, 2011.

Table of Contents**5. Secured and unsecured senior debt (continued)**

	8.00% Unsecured Senior Convertible Notes Three Months Ended September 30,				3.70% Unsecured Senior Convertible Notes Three Months Ended September 30,			
	2012		2011		2012		2011	
Contractual interest	\$	5	\$	5	\$		\$	1,132
Amortization of discount on liability component		1		2				673
Total interest cost	\$	6	\$	7	\$		\$	1,805

	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Contractual interest	\$	15	\$	15	\$	142	\$	5,228
Amortization of discount on liability component		4		4		78		3,056
Total interest cost	\$	19	\$	19	\$	220	\$	8,284

3.70% unsecured senior convertible notes

During the nine months ended September 30, 2011, we recognized an aggregate loss on early extinguishment of debt of approximately \$5.2 million related to the repurchase, in privately negotiated transactions, of approximately \$217.1 million of certain of our 3.70% Unsecured Senior Convertible Notes.

During January 2012, we repurchased approximately \$83.8 million in principal amount of our 3.70% Unsecured Senior Convertible Notes at par, pursuant to options exercised by holders thereof under the indenture governing the notes. During April 2012, we repurchased the remaining outstanding \$1.0 million in principal amount of the notes. We did not recognize a gain or loss as a result of either repurchase during the nine months ended September 30, 2012.

The following table outlines our interest expense for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
Gross interest	\$	33,857	\$	30,939	\$	99,097	\$	93,591
Capitalized interest		(16,763)		(16,666)		(47,854)		(44,905)
Interest expense (1)	\$	17,094	\$	14,273	\$	51,243	\$	48,686

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

(1) Includes interest expense related to and classified in (loss) income from discontinued operations in the accompanying condensed consolidated statements of income.

Table of Contents**6. Interest rate swap agreements**

During the three and nine months ended September 30, 2012 and 2011, our interest rate swap agreements were used primarily to hedge the variable cash flows associated with certain of our existing LIBOR-based variable rate debt, including our unsecured senior line of credit and unsecured senior bank term loans. The ineffective portion of the change in fair value of our interest rate swap agreements is required to be recognized directly in earnings. During the three and nine months ended September 30, 2012 and 2011, our interest rate swap agreements were 100% effective; because of this, no hedge ineffectiveness was recognized in earnings. The effective portion of changes in the fair values of our interest rate swap agreements that are designated and that qualify as cash flow hedges is classified in accumulated other comprehensive loss.

The following table reflects the effective portion of the unrealized loss recognized in other comprehensive loss for our interest rate swaps related to the change in fair value for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011	2012	2011
Unrealized loss recognized in other comprehensive loss related to the effective portion of changes in the fair values of our interest rate swap agreements	\$ 2,818	\$ 2,822	\$ 9,982	\$ 8,077				

Losses are subsequently reclassified into earnings in the period during which the hedged forecasted transactions affect earnings. During the next 12 months, we expect to reclassify approximately \$16.5 million from accumulated other comprehensive loss to interest expense as an increase to interest expense. The following table indicates the classification in the condensed consolidated statements of income and the effective portion of the loss reclassified from accumulated other comprehensive income into earnings for our cash flow hedge contracts for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended				Nine Months Ended			
	September 30,		September 30,		September 30,		September 30,	
	2012	2011	2012	2011	2012	2011	2012	2011
Loss reclassified from accumulated other comprehensive income to earnings as an increase to interest expense (effective portion)	\$ 5,956	\$ 5,381	\$ 17,626	\$ 16,121				

Table of Contents**6. Interest rate swap agreements (continued)**

As of September 30, 2012, and December 31, 2011, the fair values of our interest rate swap agreements were classified in accounts payable, accrued expenses, and tenant security deposits based upon their respective fair values, aggregating a liability balance of approximately \$25.3 million and \$33.0 million, respectively, which included accrued interest and adjustments for non-performance risk, with the offsetting adjustment reflected as unrealized loss in accumulated other comprehensive loss in total equity. Under our interest rate swap agreements, we have no collateral posting requirements. We had the following outstanding interest rate swap agreements that were designated as cash flow hedges of interest rate risk as of September 30, 2012 (in thousands):

Transaction Date	Effective Date	Termination Date	Interest Pay Rate (1)	Fair Value as of September 30, 2012	September 30, 2012	Notional Amount in Effect as of December 31, 2012	December 31, 2013	December 31, 2014
December 2006	December 29, 2006	March 31, 2014	4.990 %	(3,614)	\$ 50,000	\$ 50,000	\$ 50,000	\$
October 2007	October 31, 2007	September 30, 2013	4.642 %	(2,251)	) 50,000	50,000		
October 2007	July 1, 2008	March 31, 2013	4.622%	(555)	) 25,000	25,000		
October 2007	July 1, 2008	March 31, 2013	4.625%	(555)	) 25,000	25,000		
December 2006	November 30, 2009	March 31, 2014	5.015%	(5,449)	) 75,000	75,000	75,000	
December 2006	November 30, 2009	March 31, 2014	5.023%	(5,458)	) 75,000	75,000	75,000	
December 2006	December 31, 2010	October 31, 2012	5.015%	(440)	) 100,000			
December 2011	December 30, 2011	December 31, 2012	0.480%	(180)	) 250,000	250,000		
December 2011	December 30, 2011	December 31, 2012	0.480%	(180)	) 250,000	250,000		
December 2011	December 30, 2011	December 31, 2012	0.480%	(90)	) 125,000	125,000		
December 2011	December 30, 2011	December 31, 2012	0.480%	(90)	) 125,000	125,000		
December 2011	December 30, 2011	December 31, 2012	0.495%	(95)	) 125,000	125,000		
December 2011	December 30, 2011	December 31, 2012	0.508%	(99)	) 125,000	125,000		
December 2011	December 31, 2012	December 31, 2013	0.640%	(1,041)	)		250,000	
December 2011	December 31, 2012	December 31, 2013	0.640%	(1,041)	)		250,000	
December 2011	December 31, 2012	December 31, 2013	0.644%	(526)	)		125,000	
December 2011	December 31, 2012	December 31, 2013	0.644%	(526)	)		125,000	
December 2011	December 31, 2013	December 31, 2014	0.977%	(1,574)	)			250,000
December 2011	December 31, 2013	December 31, 2014	0.976%	(1,572)	)			250,000
Total				\$ (25,336)	) \$ 1,400,000	\$ 1,300,000	\$ 950,000	\$ 500,000

(1) In addition to the interest pay rate, borrowings outstanding under our unsecured senior line of credit and unsecured senior bank term loans include an applicable margin currently ranging from 1.20% to 1.75%.

Table of Contents**7. Fair value measurements***Recurring fair value measurements*

We are required to disclose fair value information about all financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate fair value. We measure and disclose the estimated fair value of financial assets and liabilities utilizing a fair value hierarchy that distinguishes between data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. This hierarchy consists of three broad levels as follows: (1) quoted prices in active markets for identical assets or liabilities, (2) significant other observable inputs, and (3) significant unobservable inputs. Significant other observable inputs can include quoted prices for similar assets or liabilities in active markets, as well as inputs that are observable for the asset or liability, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Significant unobservable inputs are typically based on an entity's own assumptions, since there is little, if any, related market activity. In instances in which the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level of input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. There were no transfers between the levels in the fair value hierarchy during the three or nine months ended September 30, 2012.

The following tables set forth the assets and liabilities that we measure at fair value on a recurring basis by level within the fair value hierarchy as of September 30, 2012, and December 31, 2011 (in thousands):

Description	Total	Quoted Prices in Active Markets for Identical Assets	September 30, 2012	
			Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Marketable securities	\$ 6,563	\$ 6,563	\$	\$
Liabilities:				
Interest rate swap agreements	\$ 25,336	\$	\$ 25,336	\$

Description	Total	Quoted Prices in Active Markets for Identical Assets	December 31, 2011	
			Significant Other Observable Inputs	Significant Unobservable Inputs
Assets:				
Marketable securities	\$ 6,235	\$ 6,235	\$	\$
Liabilities:				
Interest rate swap agreements	\$ 32,980	\$	\$ 32,980	\$

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

The carrying amounts of cash and cash equivalents, restricted cash, tenant receivables, other assets, accounts payable, accrued expenses, and tenant security deposits approximate fair value. Our marketable securities and our interest rate swap agreements, respectively, have been recorded at fair value. The fair values of our secured notes payable, unsecured senior notes payable, unsecured senior line of credit, unsecured senior bank term loans, and unsecured senior convertible notes were estimated using widely accepted valuation techniques, including discounted cash flow analyses of significant other observable inputs such as available market information on discount and borrowing rates with similar terms and maturities. Because the valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate. Additionally, the use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

Table of Contents

7. Fair value measurements (continued)

As of September 30, 2012, and December 31, 2011, the book and fair values of our marketable securities, interest rate swap agreements, secured notes payable, unsecured senior notes payable, unsecured senior line of credit, and unsecured senior bank term loans were as follows (in thousands):

	September 30, 2012		December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
Marketable securities	\$ 6,563	\$ 6,563	\$ 6,235	\$ 6,235
Interest rate swap agreements	\$ (25,336)	\$ (25,336)	\$ (32,980)	\$ (32,980)
Secured notes payable	\$ (719,350)	\$ (814,637)	\$ (724,305)	\$ (810,128)
Unsecured senior notes payable	\$ (549,794)	\$ (585,016)	\$ (84,959)	\$ (85,221)
Unsecured senior line of credit	\$ (413,000)	\$ (426,757)	\$ (370,000)	\$ (378,783)
Unsecured senior bank term loans	\$ (1,350,000)	\$ (1,362,120)	\$ (1,600,000)	\$ (1,603,917)

Fair value measurements for other than on a recurring basis

In September 2012, four properties aggregating 504,130 rentable square feet met the classification requirements for held for sale. During the three months ended September 30, 2012, we recorded impairment charges aggregating approximately \$9.8 million to reduce the aggregate carrying value of the properties to the estimated sales price less costs to sell. We used the preliminary sales price estimates based on offers from prospective buyers as a significant observable input (level 2) within the valuation hierarchy to determine the estimated fair value of these assets.

8. Earnings per share

We use income from continuing operations attributable to Alexandria Real Estate Equities, Inc.'s common stockholders as the control number in determining whether potential common shares, including potential common shares issuable upon conversion of our 8.00% unsecured senior convertible notes (8.00% Unsecured Senior Convertible Notes), are dilutive or antidilutive to earnings per share. Pursuant to the presentation and disclosure literature on gains or losses on sales or disposals by REITs and earnings per share required by the SEC and the FASB, gains or losses on sales or disposals by a REIT that do not qualify as discontinued operations are classified below (loss) income from discontinued operations in the condensed consolidated statements of income and included in the numerator for the computation of earnings per share for income from continuing operations.

The sale of a land parcel related to our investment in an unconsolidated real estate entity in March 2012 did not meet the criteria for discontinued operations because the land parcel did not have significant operations prior to disposition. Accordingly, in March 2012, we classified the \$1.9 million gain on sale of land parcel below (loss) income from discontinued operations, net, in the accompanying condensed consolidated statements of income, and included the gain in income from continuing operations attributable to Alexandria Real Estate Equities, Inc.'s common stockholders in the control number, or numerator for computation of earnings per share.

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

We account for unvested restricted stock awards that contain nonforfeitable rights to dividends as participating securities and include these securities in the computation of earnings per share using the two-class method. Under the two-class method, we allocate net income after preferred stock dividends, preferred stock redemption charge, and amounts attributable to noncontrolling interests to common stockholders and unvested restricted stock awards based on their respective participation rights to dividends declared (or accumulated) and undistributed earnings. Diluted earnings per share is computed using the weighted average shares of common stock outstanding determined for the basic earnings per share computation plus the effect of any dilutive securities, including the dilutive effect of stock options using the treasury stock method.

Table of Contents**8. Earnings per share (continued)**

The table below is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income from continuing operations	\$ 24,086	\$ 31,144	\$ 74,621	\$ 92,006
Gain on sale of land parcel		46	1,864	46
Net income attributable to noncontrolling interests	(828)	(966)	(2,390)	(2,833)
Dividends on preferred stock	(6,471)	(7,089)	(20,857)	(21,267)
Preferred stock redemption charge			(5,978)	
Net income attributable to unvested restricted stock awards	(360)	(278)	(866)	(818)
Income from continuing operations attributable to Alexandria Real Estate Equities, Inc.'s common stockholders - basic and diluted	16,427	22,857	46,394	67,134
(Loss) income from discontinued operations:				
Income from discontinued operations before impairment of real estate	4,018	2,799	10,035	8,873
Impairment of real estate	(9,799)	(994)	(9,799)	(994)
(Loss) income from discontinued operations, net	(5,781)	1,805	236	7,879
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders - basic and diluted	\$ 10,646	\$ 24,662	\$ 46,630	\$ 75,013
Weighted average shares of common stock outstanding - basic	62,364,210	61,295,659	61,847,023	58,271,270
Dilutive effect of stock options		8,310	448	13,475
Weighted average shares of common stock outstanding - diluted	62,364,210	61,303,969	61,847,471	58,284,745
Earnings per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders - basic and diluted:				
Continuing operations	\$ 0.26	\$ 0.37	\$ 0.75	\$ 1.15
Discontinued operations, net	(0.09)	0.03		0.14
Earnings per share - basic and diluted	\$ 0.17	\$ 0.40	\$ 0.75	\$ 1.29

For purposes of calculating diluted earnings per share, we did not assume conversion of our 8.00% Unsecured Senior Convertible Notes for the three and nine months ended September 30, 2012 and 2011, since the impact was antidilutive to earnings per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders from continuing operations during those periods.

For purposes of calculating diluted earnings per share, we did not assume conversion of our series D convertible preferred stock (Series D Convertible Preferred Stock) for the three and nine months ended September 30, 2012 and 2011, since the impact was antidilutive to earnings per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders from continuing operations during those periods.

Our calculation of weighted average diluted shares for the three and nine months ending September 30, 2011, would include additional shares related to our 3.70% Unsecured Senior Convertible Notes if the average market price of our common stock had been higher than the conversion

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

price (\$117.36 as of September 30, 2011). For the three and nine months ended September 30, 2011, the weighted average shares of common stock related to our 3.70% Unsecured Senior Convertible Notes have been excluded from diluted weighted average shares of common stock because the average market price of our common stock was lower than the conversion price and the impact of conversion would have been antidilutive to earnings per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders from continuing operations during the period. In April 2012, we repurchased the remaining outstanding \$1.0 million in principal amount of the notes.

Table of Contents

9. Net income attributable to Alexandria Real Estate Equities, Inc.

The following table shows income from continuing and discontinued operations attributable to Alexandria Real Estate Equities, Inc. for the three and nine months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Income from continuing operations	\$ 24,086	\$ 31,144	\$ 74,621	\$ 92,006
Gain on sale of land parcel		46	1,864	46
Less: net income attributable to noncontrolling interests	(828)	(966)	(2,390)	(2,833)
Income from continuing operations attributable to Alexandria Real Estate Equities, Inc.	23,258	30,224	74,095	89,219
(Loss) income from discontinued operations:				
	4,018	2,799	10,035	8,873
Income from discontinued operations before impairment of real estate				
Impairment of real estate	(9,799)	(994)	(9,799)	(994)
(Loss) income from discontinued operations, net	(5,781)	1,805	236	7,879
Less: net income from discontinued operations attributable to noncontrolling interests				
Net income attributable to Alexandria Real Estate Equities, Inc.	\$ 17,477	\$ 32,029	\$ 74,331	\$ 97,098

10. Stockholders equity

At the market common stock offering program

In June 2012, we established an at the market common stock offering program under which we may sell, from time to time, up to an aggregate of \$250.0 million of our common stock through our sales agents, BNY Mellon Capital Markets, LLC and Credit Suisse Securities (USA) LLC, during a three-year period. During the nine months ended September 30, 2012, we sold an aggregate of 1,366,977 shares of common stock for gross proceeds of approximately \$100.0 million at an average stock price of \$73.15 and net proceeds of approximately \$98.4 million. This includes the sale of an aggregate of 793,291 shares of common stock for gross proceeds of approximately \$59.5 million at an average stock price of \$74.97 and net proceeds of approximately \$58.5 million during the three months ended September 30, 2012. As of September 30, 2012, approximately \$150.0 million of our common stock remained available for issuance under the at the market common stock offering program.

6.45% series E preferred stock offering

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

In March 2012, we completed a public offering of 5,200,000 shares of our 6.45% series E cumulative redeemable preferred stock (Series E Preferred Stock). The shares were issued at a price of \$25.00 per share, resulting in net proceeds of approximately \$124.9 million (after deducting underwriters' discounts and other offering costs). The proceeds were initially used to reduce the outstanding borrowings under our unsecured senior line of credit. We then borrowed funds under our unsecured senior line of credit to redeem our 8.375% series C cumulative redeemable preferred stock in April 2012 (Series C Preferred Stock). The dividends on our Series E Preferred Stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of 6.45%, or \$1.6125 per share. Our Series E Preferred Stock has no stated maturity date, is not subject to any sinking fund or mandatory redemption provisions, and is not redeemable before March 15, 2017, except to preserve our status as a REIT. On and after March 15, 2017, we may, at our option, redeem the Series E Preferred Stock, in whole or in part, at any time for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends on the Series E Preferred Stock up to, but excluding, the redemption date. In addition, upon the occurrence of a change of control, we may, at our option, redeem the Series E Preferred Stock, in whole or in part, within 120 days after the first date on which such change of control occurred, by paying \$25.00 per share, plus any accrued and unpaid dividends up to, but excluding, the date of redemption. Investors in our Series E Preferred Stock generally have no voting rights.

Table of Contents

10. Stockholders equity (continued)

8.375% series C preferred stock redemption

In April 2012, we redeemed all 5,185,500 outstanding shares of our Series C Preferred Stock at a price equal to \$25.00 per share, or approximately \$129.6 million in aggregate, and paid \$0.5234375 per share, representing accumulated and unpaid dividends to the redemption date on such shares. We recognized a charge of approximately \$6.0 million to net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders in March 2012, related to the write-off of original issuance costs of the Series C Preferred Stock.

Dividends

In September 2012, we declared cash dividends for the third quarter of 2012 on our common stock aggregating approximately \$33.8 million, or \$0.53 per share. In September 2012, we also declared cash dividends for the third quarter of 2012 on our Series D Convertible Preferred Stock aggregating approximately \$4.4 million, or \$0.4375 per share. Additionally, we declared cash dividends for the third quarter of 2012 on our Series E Preferred Stock aggregating approximately \$2.1 million, or \$0.403125 per share. In October 2012, we paid the cash dividends for the third quarter of 2012 on our common stock, Series D Convertible Preferred Stock, and Series E Preferred Stock.

Accumulated other comprehensive loss

Accumulated other comprehensive loss attributable to Alexandria Real Estate Equities, Inc. consists of the following (in thousands):

	September 30, 2012	December 31, 2011
Unrealized gain on marketable securities	\$ 3,090	\$ 3,834
Unrealized loss on interest rate swap agreements	(25,336)	(32,980)
Unrealized gain (loss) on foreign currency translation	2,517	(5,365)
Total	\$ (19,729)	\$ (34,511)

11. Noncontrolling interests

Noncontrolling interests represent the third-party interests in certain entities in which we have a controlling interest. These entities own 10 properties and two development parcels as of September 30, 2012, and are included in our condensed consolidated financial statements. Noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements.

Certain of our noncontrolling interests have the right to require us to redeem their ownership interests in the respective entities. We classify these ownership interests in the entities as redeemable noncontrolling interests outside of total equity in the accompanying condensed consolidated balance sheets. Redeemable noncontrolling interests are adjusted for additional contributions and distributions, the proportionate share of the net earnings or losses, and other comprehensive income or loss. Distributions, profits, and losses related to these entities are allocated in accordance with the respective operating agreements. If the carrying amount of a redeemable noncontrolling interest is less than the maximum redemption value at the balance sheet date, such amount is adjusted to the maximum redemption value. Subsequent declines in the redemption value are recognized only to the extent that previous increases have been recognized. As of September 30, 2012, and December 31, 2011, our redeemable noncontrolling interest balances were approximately \$15.6 million and \$16.0 million, respectively. Our remaining noncontrolling interests, aggregating approximately \$45.1 million and \$42.6 million as of September 30, 2012, and December 31, 2011, respectively, do not have rights to require us to purchase their ownership interests and are classified in total equity in the accompanying condensed consolidated balance sheets.

Table of Contents

12. Discontinued operations

The following is a summary of net assets of discontinued operations and (loss) income from discontinued operations, net (in thousands):

	September 30, 2012	December 31, 2011
Properties held for sale, net	\$ 77,702	\$ 88,408
Other assets	4,010	4,176
Total assets	81,712	92,584
Total liabilities	(2,435)	(3,532)
Net assets of discontinued operations	\$ 79,277	\$ 89,052

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Total revenues	\$ 5,814	\$ 6,296	\$ 18,808	\$ 19,658
Operating expenses	(2,360)	(2,254)	(7,181)	(6,986)
Total revenues less operating expenses	3,454	4,042	11,627	12,672
Interest expense				(65)
Depreciation expense	(998)	(1,243)	(3,156)	(3,734)
Gain on sale of real estate	1,562		1,564	
Income from discontinued operations before impairment of real estate	4,018	2,799	10,035	8,873
Impairment of real estate	(9,799)	(994)	(9,799)	(994)
(Loss) income from discontinued operations, net	\$ (5,781)	\$ 1,805	\$ 236	\$ 7,879

(Loss) income from discontinued operations, net, for the three and nine months ended September 30, 2012, includes the results of the operations of four operating properties that were classified as held for sale as of September 30, 2012, and the results of operations of six properties sold during the nine months ended September 30, 2012. Income from discontinued operations, net, for the three and nine months ended September 30, 2011, includes the results of operations of four properties that were classified as held for sale as of September 30, 2012, six properties sold during the nine months ended September 30, 2012, and one property sold during the three months ended December 31, 2011. During the three and nine months ended September 30, 2012, we completed the sale of five and six properties, respectively. For additional discussion regarding real estate asset sales, see discussion at Note 3, Investments in Real Estate.

13. Non-cash transactions

During the three and nine months ended September 30, 2012, our non-cash transactions included the receipt of a secured note receivable of approximately \$6.1 million in connection with the sale of 200 Lawrence Drive and 210 Welsh Pool Road in July 2012 for approximately \$19.8 million.

Table of Contents**14. Condensed consolidating financial information**

Alexandria Real Estate Equities, Inc. (the **Issuer**) has sold certain debt securities registered under the Securities Act, as amended, that are fully and unconditionally guaranteed by Alexandria Real Estate Equities, L.P. (the **LP**), an indirectly 100% owned subsidiary of the Issuer. The Company's other subsidiaries, including, but not limited to, the subsidiaries that own substantially all of its real estate (collectively, the **Combined Non-Guarantor Subsidiaries**) will not provide a guarantee of such securities, including the subsidiaries that are partially or 100% owned by the LP. The following condensed consolidating financial information presents the condensed consolidating balance sheets as of September 30, 2012, and December 31, 2011, and the condensed consolidating statements of income, comprehensive income, and cash flows for three and nine months ended September 30, 2012 and 2011, for the Issuer, the guarantor subsidiary (the LP), the Combined Non-Guarantor Subsidiaries, consolidating adjustments, and consolidated amounts. Each entity in the condensed consolidating financial information follows the same accounting policies described in our condensed consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interest in subsidiaries that are eliminated upon consolidation.

Condensed Consolidating Balance Sheet**as of September 30, 2012***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate, net	\$ 40,085	\$	\$ 6,259,942	\$	\$ 6,300,027
Cash and cash equivalents	50,395		44,509		94,904
Restricted cash	48		44,815		44,863
Tenant receivables	1		10,123		10,124
Deferred rent	1,693		159,221		160,914
Deferred leasing and financing costs, net	33,038		118,983		152,021
Investments		12,671	95,137		107,808
Investments in and advances to affiliates	5,738,965	5,274,333	108,334	(11,121,632)	
Intercompany note receivable	2,244			(2,244)	
Other assets	19,336		75,020		94,356
Total assets	\$ 5,885,805	\$ 5,287,004	\$ 6,916,084	\$ (11,123,876)	\$ 6,965,017
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	\$	\$	\$ 719,350	\$	\$ 719,350
Unsecured senior notes payable	549,794				549,794
Unsecured senior line of credit	413,000				413,000
Unsecured senior bank term loans	1,350,000				1,350,000
Accounts payable, accrued expenses, and tenant security deposits	77,951		298,834		376,785
Dividends payable	39,170		298		39,468
Intercompany note payable			2,244	(2,244)	

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

Total liabilities	2,429,915		1,020,726	(2,244)	3,448,397
Redeemable noncontrolling interests			15,610		15,610
Alexandria Real Estate Equities, Inc.'s stockholders' equity	3,455,890	5,287,004	5,834,628	(11,121,632)	3,455,890
Noncontrolling interests			45,120		45,120
Total equity	3,455,890	5,287,004	5,879,748	(11,121,632)	3,501,010
Total liabilities, noncontrolling interests, and equity	\$ 5,885,805	\$ 5,287,004	\$ 6,916,084	\$ (11,123,876)	\$ 6,965,017

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Balance Sheet****as of December 31, 2011***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Investments in real estate, net	\$ 46,795	\$	\$ 5,961,645	\$	\$ 6,008,440
Cash and cash equivalents	10,608		67,931		78,539
Restricted cash	40		23,292		23,332
Tenant receivables	12		7,468		7,480
Deferred rent	1,615		140,482		142,097
Deferred leasing and financing costs, net	25,364		110,186		135,550
Investments		13,385	82,392		95,777
Investments in and advances to affiliates	5,443,778	5,020,525	105,284	(10,569,587)	
Intercompany note receivable	2,195			(2,195)	
Other assets	18,643		64,271		82,914
Total assets	\$ 5,549,050	\$ 5,033,910	\$ 6,562,951	\$ (10,571,782)	\$ 6,574,129
Liabilities, Noncontrolling Interests, and Equity					
Secured notes payable	\$	\$	\$ 724,305	\$	\$ 724,305
Unsecured senior notes payable	84,959				84,959
Unsecured senior line of credit	370,000				370,000
Unsecured senior bank term loans	1,600,000				1,600,000
Accounts payable, accrued expenses, and tenant security deposits	83,488		241,905		325,393
Dividends payable	36,302		277		36,579
Intercompany note payable			2,195	(2,195)	
Total liabilities	2,174,749		968,682	(2,195)	3,141,236
Redeemable noncontrolling interests			16,034		16,034
Alexandria Real Estate Equities, Inc.'s stockholders' equity	3,374,301	5,033,910	5,535,677	(10,569,587)	3,374,301
Noncontrolling interests			42,558		42,558
Total equity	3,374,301	5,033,910	5,578,235	(10,569,587)	3,416,859
Total liabilities, noncontrolling interests, and equity	\$ 5,549,050	\$ 5,033,910	\$ 6,562,951	\$ (10,571,782)	\$ 6,574,129

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Income****for the Three Months Ended September 30, 2012***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$	\$	\$ 108,367	\$	\$ 108,367
Tenant recoveries			34,448		34,448
Other income	2,091	51	3,915	(3,417)	2,640
Total revenues	2,091	51	146,730	(3,417)	145,455
Expenses:					
Rental operations			44,614		44,614
General and administrative	9,585		6,317	(3,417)	12,485
Interest	11,786		5,308		17,094
Depreciation and amortization	1,726		45,450		47,176
Total expenses	23,097		101,689	(3,417)	121,369
(Loss) income from continuing operations before equity in earnings of affiliates and loss on early extinguishment of debt	(21,006)	51	45,041		24,086
Equity in earnings of affiliates	42,074	41,874	781	(84,729)	
Income from continuing operations	21,068	41,925	45,822	(84,729)	24,086
(Loss) income from discontinued operations:					
	1,208		2,810		4,018
Income from discontinued operations before impairment of real estate					
Impairment of real estate	(4,799)		(5,000)		(9,799)
(Loss) income from discontinued operations, net	(3,591)		(2,190)		(5,781)
Net income	17,477	41,925	43,632	(84,729)	18,305
Net income attributable to noncontrolling interests			828		828
Dividends on preferred stock	6,471				6,471
Net income attributable to unvested restricted stock awards	360				360
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 10,646	\$ 41,925	\$ 42,804	\$ (84,729)	\$ 10,646

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Income****for the Nine Months Ended September 30, 2012***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$	\$	\$ 318,247	\$	\$ 318,247
Tenant recoveries			99,006		99,006
Other income	5,199	891	18,500	(9,940)	14,650
Total revenues	5,199	891	435,753	(9,940)	431,903
Expenses:					
Rental operations			127,884		127,884
General and administrative	32,030		13,062	(9,940)	35,152
Interest	34,460		16,783		51,243
Depreciation and amortization	3,781		136,997		140,778
Total expenses	70,271		294,726	(9,940)	355,057
(Loss) income from continuing operations before equity in earnings of affiliates and loss on early extinguishment of debt	(65,072)	891	141,027		76,846
Equity in earnings of affiliates	142,660	134,347	2,662	(279,669)	
Loss on early extinguishment of debt	(2,225)				(2,225)
Income from continuing operations	75,363	135,238	143,689	(279,669)	74,621
(Loss) income from discontinued operations:					
Income from discontinued operations before impairment of real estate	3,767		6,268		10,035
Impairment of real estate	(4,799)		(5,000)		(9,799)
(Loss) income from discontinued operations, net	(1,032)		1,268		236
Gain on sale of land parcel			1,864		1,864
Net income	74,331	135,238	146,821	(279,669)	76,721
Net income attributable to noncontrolling interests			2,390		2,390
Dividends on preferred stock	20,857				20,857
Preferred stock redemption charge	5,978				5,978
Net income attributable to unvested restricted stock awards	866				866

Edgar Filing: ALEXANDRIA REAL ESTATE EQUITIES INC - Form 10-Q

Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$	46,630	\$	135,238	\$	144,431	\$	(279,669)	\$	46,630
--	----	--------	----	---------	----	---------	----	-----------	----	--------

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Income****for the Three Months Ended September 30, 2011***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$	\$	\$ 102,353	\$	\$ 102,353
Tenant recoveries			33,226		33,226
Other income (loss)	2,032	(200)	3,982	(3,339)	2,475
Total revenues	2,032	(200)	139,561	(3,339)	138,054
Expenses:					
Rental operations			40,859		40,859
General and administrative	9,423	7	4,198	(3,339)	10,289
Interest	11,967		2,306		14,273
Depreciation and amortization	937		37,810		38,747
Total expenses	22,327	7	85,173	(3,339)	104,168
(Loss) income from continuing operations before equity in earnings of affiliates and loss on early extinguishment of debt	(20,295)	(207)	54,388		33,886
Equity in earnings of affiliates	53,876	50,873	973	(105,722)	
Loss on early extinguishment of debt	(2,742)				(2,742)
Income from continuing operations	30,839	50,666	55,361	(105,722)	31,144
Income (loss) from discontinued operations:					
Income (loss) from discontinued operations before impairment of real estate	1,190		1,609		2,799
Impairment of real estate			(994)		(994)
Income (loss) from discontinued operations, net	1,190		615		1,805
Gain on sale of land parcel			46		46
Net income	32,029	50,666	56,022	(105,722)	32,995
Net income attributable to noncontrolling interests			966		966
Dividends on preferred stock	7,089				7,089
Net income attributable to unvested restricted stock awards	278				278
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 24,662	\$ 50,666	\$ 55,056	\$ (105,722)	\$ 24,662

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Income****for the Nine Months Ended September 30, 2011***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Rental	\$	\$	\$ 309,532	\$	\$ 309,532
Tenant recoveries			95,270		95,270
Other income (loss)	6,542	(515)	7,967	(9,816)	4,178
Total revenues	6,542	(515)	412,769	(9,816)	408,980
Expenses:					
Rental operations			118,014		118,014
General and administrative	26,977	7	13,360	(9,816)	30,528
Interest	32,727		15,894		48,621
Depreciation and amortization	2,427		110,899		113,326
Total expenses	62,131	7	258,167	(9,816)	310,489
(Loss) income from continuing operations before equity in earnings of affiliates and loss on early extinguishment of debt	(55,589)	(522)	154,602		98,491
Equity in earnings of affiliates	155,514	146,803	2,896	(305,213)	
Loss on early extinguishment of debt	(6,485)				(6,485)
Income from continuing operations	93,440	146,281	157,498	(305,213)	92,006
Income from discontinued operations:					
Income from discontinued operations before impairment of real estate	3,658		5,215		8,873
Impairment of real estate			(994)		(994)
Income from discontinued operations, net	3,658		4,221		7,879
Gain on sale of land parcel			46		46
Net income	97,098	146,281	161,765	(305,213)	99,931
Net income attributable to noncontrolling interests			2,833		2,833
Dividends on preferred stock	21,267				21,267
Net income attributable to unvested restricted stock awards	818				818
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$ 75,013	\$ 146,281	\$ 158,932	\$ (305,213)	\$ 75,013

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Comprehensive Income****for the Three Months Ended September 30, 2012***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 17,477	\$ 41,925	\$ 43,632	\$ (84,729)	\$ 18,305
Other comprehensive income:					
Unrealized gains (losses) on marketable securities:					
Unrealized holding gains arising during the period		23	773		796
Reclassification adjustment for gains included in net income		(11)	(1,410)		(1,421)
Unrealized gains (losses) on marketable securities, net		12	(637)		(625)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(2,818)				(2,818)
Reclassification adjustment for amortization of interest expense included in net income	5,956				5,956
Unrealized gains on interest rate swaps, net	3,138				3,138
Foreign currency translation gains			15,104		15,104
Total other comprehensive income	3,138	12	14,467		17,617
Comprehensive income	20,615	41,937	58,099	(84,729)	35,922
Less: comprehensive income attributable to noncontrolling interests			(805)		(805)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	\$ 20,615	\$ 41,937	\$ 57,294	\$ (84,729)	\$ 35,117

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Comprehensive Income****for the Nine Months Ended September 30, 2012***(In thousands)**(Unaudited)*

	Alexandria Real Estate Equities, Inc. (Issuer)	Alexandria Real Estate Equities, L.P. (Guarantor Subsidiary)	Combined Non- Guarantor Subsidiaries	Eliminations	Consolidated
Net income	\$ 74,331	\$ 135,238	\$ 146,821	\$ (279,669)	\$ 76,721
Other comprehensive income:					
Unrealized gains (losses) on marketable securities:					
Unrealized holding gains arising during the period		10	1,353		1,363
Reclassification adjustment for losses (gains) included in net income		172	(2,279)		(2,107)
Unrealized gains (losses) on marketable securities, net					