

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

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(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

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

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

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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

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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.

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- (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.

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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

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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

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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

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(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	\$

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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.

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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

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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

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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)	

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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

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Net income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	\$	46,630	\$	135,238	\$	144,431	\$	(279,669)	\$	46,630
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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		182	(926)		(744)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(9,982)				(9,982)
Reclassification adjustment for amortization of interest expense included in net income	17,626				17,626
Unrealized gains on interest rate swaps, net	7,644				7,644
Foreign currency translation gains			7,871		7,871
Total other comprehensive income	7,644	182	6,945		14,771
Comprehensive income	81,975	135,420	153,766	(279,669)	91,492
Less: comprehensive income attributable to noncontrolling interests			(2,379)		(2,379)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	\$ 81,975	\$ 135,420	\$ 151,387	\$ (279,669)	\$ 89,113

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Comprehensive 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
Net income	\$ 32,029	\$ 50,666	\$ 56,022	\$ (105,722)	\$ 32,995
Other comprehensive income:					
Unrealized losses on marketable securities:					
Unrealized holding losses arising during the period		(172)	(497)		(669)
Reclassification adjustments for gains included in net income		(28)	(1,919)		(1,947)
Unrealized losses on marketable securities, net		(200)	(2,416)		(2,616)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(2,822)				(2,822)
Reclassification adjustment for amortization of interest expense included in net income	5,381				5,381
Unrealized losses on interest rate swaps, net	2,559				2,559
Foreign currency translation loss			(25,814)		(25,814)
Total other comprehensive income (loss)	2,559	(200)	(28,230)		(25,871)
Comprehensive income	34,588	50,466	27,792	(105,722)	7,124
Less: comprehensive income attributable to noncontrolling interests			(1,024)		(1,024)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	\$ 34,588	\$ 50,466	\$ 26,768	\$ (105,722)	\$ 6,100

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Comprehensive 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
Net income	\$ 97,098	\$ 146,281	\$ 161,765	\$ (305,213)	\$ 99,931
Other comprehensive income:					
Unrealized gains on marketable securities:					
Unrealized holding losses arising during the period		(160)	(497)		(657)
Reclassification adjustments for gains included in net income		(28)	(1,919)		(1,947)
Unrealized losses on marketable securities, net		(188)	(2,416)		(2,604)
Unrealized gains on interest rate swaps:					
Unrealized interest rate swap losses arising during the period	(8,077)				(8,077)
Reclassification adjustment for amortization of interest expense included in net income	16,121				16,121
Unrealized gains on interest rate swaps, net	8,044				8,044
Foreign currency translation loss			(19,255)		(19,255)
Total other comprehensive income (loss)	8,044	(188)	(21,671)		(13,815)
Comprehensive income	105,142	146,093	140,094	(305,213)	86,116
Less: comprehensive income attributable to noncontrolling interests			(2,885)		(2,885)
Comprehensive income attributable to Alexandria Real Estate Equities, Inc. s common stockholders	\$ 105,142	\$ 146,093	\$ 137,209	\$ (305,213)	\$ 83,231

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Cash Flows****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
Operating Activities					
Net income	\$ 74,331	\$ 135,238	\$ 146,821	\$ (279,669)	\$ 76,721
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	3,781		140,152		143,933
Loss on early extinguishment of debt	2,225				2,225
Gain on sale of land parcel			(1,864)		(1,864)
Gain on sale of real estate			(1,564)		(1,564)
Non-cash impairment of real estate	4,799		5,000		9,799
Amortization of loan fees and costs	5,307		2,020		7,327
Amortization of debt premiums/discounts	104		297		401
Amortization of acquired above and below market leases			(2,356)		(2,356)
Deferred rent	164		(19,380)		(19,216)
Stock compensation expense	10,412				10,412
Equity in income related to investments		26			26
Equity in income related to subsidiaries	(142,660)	(134,347)	(2,662)	279,669	
Gain on sales of investments		(1,109)	(11,207)		(12,316)
Loss on sales of investments		195	1,412		1,607
Changes in operating assets and liabilities:					
Restricted cash	(8)		449		441
Tenant receivables	11		(2,648)		(2,637)
Deferred leasing costs	4,232		(27,829)		(23,597)
Other assets	2,603		(5,833)		(3,230)
Intercompany receivables and payables	(49)		49		
Accounts payable, accrued expenses, and tenant security deposits	3,592		37,786		41,378
Net cash (used in) provided by operating activities	(31,156)	3	258,643		227,490
Investing Activities					
Proceeds from sale of property			36,179		36,179
Distributions from unconsolidated real estate entity related to sale of land parcel			22,250		22,250
Additions to properties	(1,192)		(404,874)		(406,066)
Purchase of properties			(42,171)		(42,171)
Change in restricted cash related to construction projects			(11,453)		(11,453)
Contributions to unconsolidated real estate entity			(5,042)		(5,042)
Investments in subsidiaries	(145,389)	(112,504)	(389)	258,282	
Additions to investments		(160)	(21,837)		(21,997)
Proceeds from investments		1,944	17,961		19,905

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Net cash used in investing activities	(146,581)	(110,720)	(409,376)	258,282	(408,395)
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Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Cash Flows (continued)****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
Financing Activities					
Principal borrowings from secured notes payable			2,874		2,874
Repayments of borrowings from secured notes payable			(8,125)		(8,125)
Proceeds from issuance of unsecured senior notes payable	544,649				544,649
Repurchase of unsecured senior convertible notes	(84,801)				(84,801)
Principal borrowings from unsecured senior line of credit and unsecured senior bank term loan	623,147				623,147
Repayments of borrowings from unsecured senior line of credit	(580,147)				(580,147)
Repayment of unsecured senior bank term loan	(250,000)				(250,000)
Redemption of Series C Preferred Stock	(129,638)				(129,638)
Proceeds from issuance of Series E Preferred Stock	124,868				124,868
Proceeds from issuance of common stock	98,443				98,443
Transfer to/from parent company		110,717	147,565	(258,282)	
Change in restricted cash related to financings			(10,476)		(10,476)
Deferred financing costs paid	(15,065)		(5,352)		(20,417)
Proceeds from exercise of stock options	155				155
Dividends paid on common stock	(92,743)				(92,743)
Dividends paid on preferred stock	(21,348)				(21,348)
Distributions to redeemable noncontrolling interests			(943)		(943)
Redemption of redeemable noncontrolling interests	4		(154)		(150)
Contributions by noncontrolling interests			1,626		1,626
Distributions to noncontrolling interests			(770)		(770)
Net cash provided by financing activities	217,524	110,717	126,245	(258,282)	196,204
Effect of exchange rate changes on cash and cash equivalents			1,066		1,066
Net increase (decrease) in cash and cash equivalents	39,787		(23,422)		16,365
Cash and cash equivalents at beginning of period	10,608		67,931		78,539
Cash and cash equivalents at end of period	\$ 50,395	\$	\$ 44,509	\$	\$ 94,904

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Supplemental Disclosure of Cash Flow Information

Cash paid during the period for interest, net of interest capitalized	\$	23,693	\$		\$	7,259	\$		\$	30,952
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Non-Cash Investing Activities

Note receivable from sale of real estate	\$		\$		\$	(6,125)	\$		\$	(6,125)
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Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Cash Flows****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
Operating Activities					
Net income	\$ 97,098	\$ 146,281	\$ 161,765	\$ (305,213)	\$ 99,931
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	2,427		114,633		117,060
Loss on early extinguishment of debt	6,485				6,485
Gain on sale of land parcel			(46)		(46)
Non-cash impairment of real estate			994		994
Amortization of loan fees and costs	5,134		1,615		6,749
Amortization of debt premiums/discounts	3,060		194		3,254
Amortization of acquired above and below market leases			(8,520)		(8,520)
Deferred rent			(17,239)		(17,239)
Stock compensation expense	8,449				8,449
Equity in loss related to investments					
Equity in income related to subsidiaries	(155,514)	(146,803)	(2,896)	305,213	
Gain on sales of investments		(236)	(3,319)		(3,555)
Loss on sales of investments		767	473		1,240
Changes in operating assets and liabilities:					
Restricted cash	18		471		489
Tenant receivables	(2)		(1,326)		(1,328)
Deferred leasing costs	1,387		(52,968)		(51,581)
Other assets	2,071		(10,806)		(8,735)
Intercompany receivables and payables	(1,418)		1,418		
Accounts payable, accrued expenses, and tenant security deposits	(13,361)		39,686		26,325
Net cash (used in) provided by operating activities	(44,166)	9	224,129		179,972
Investing Activities					
Proceeds from sale of property			17,339		17,339
Distributions from unconsolidated real estate entity related to sale of land parcel					
Additions to properties	(844)		(292,844)		(293,688)
Purchase of properties			(307,839)		(307,839)
Change in restricted cash related to construction projects			(2,891)		(2,891)
Contributions to unconsolidated real estate entity			(3,256)		(3,256)
Investments in subsidiaries	(415,486)	(396,720)	(10,093)	822,299	
Additions to investments		(314)	(19,349)		(19,663)
Proceeds from investments		2,059	12,437		14,496
Net cash used in investing activities	(416,330)	(394,975)	(606,496)	822,299	(595,502)

Table of Contents**14. Condensed consolidating financial information (continued)****Condensed Consolidating Statement of Cash Flows (continued)****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
Financing Activities					
Principal borrowings from secured notes payable					
Repayments of borrowings from secured notes payable			(30,181)		(30,181)
Proceeds from issuance of unsecured senior notes payable					
Repurchase of unsecured senior convertible notes	(221,439)				(221,439)
Principal borrowings from unsecured senior line of credit	1,990,317				1,990,317
Repayments of borrowings from unsecured senior line of credit	(1,674,317)				(1,674,317)
Repayment of unsecured senior bank term loan					
Proceeds from issuance of Series E Preferred Stock					
Proceeds from issuance of common stock	451,539				451,539
Change in restricted cash related to financings			2,591		2,591
Transfers due to/from parent company		394,474	427,825	(822,299)	
Deferred financing costs paid	(20,124)		(144)		(20,268)
Proceeds from exercise of stock options	1,165				1,165
Dividends paid on common stock	(77,787)				(77,787)
Dividends paid on preferred stock	(21,268)				(21,268)
Distributions to redeemable noncontrolling interests			(939)		(939)
Contributions by noncontrolling interests					
Distributions to noncontrolling interests			(2,084)		(2,084)
Net cash provided by financing activities	428,086	394,474	397,068	(822,299)	397,329
Effect of exchange rate changes on cash and cash equivalents			25		25
Net (decrease) increase in cash and cash equivalents	(32,410)	(492)	14,726		(18,176)
Cash and cash equivalents at beginning of period	48,623	602	42,007		91,232
Cash and cash equivalents at end of period	\$ 16,213	\$ 110	\$ 56,733	\$	\$ 73,056
Supplemental Disclosure of Cash Flow Information					
	\$ 24,296	\$	\$ 13,717	\$	\$ 38,013

Cash paid during the period for interest, net
of interest capitalized

Table of Contents

15. Subsequent event

On October 29, 2012, our property at 450 East 29th Street, the East Tower of the Alexandria Center for Life Science New York City, a multi-tenant building with 309,141 rentable square feet experienced water damage, along with many other properties owned by other landlords in New York City. Initial assessments have identified minimal damage, with no damage to our building or structure. While there has been some water damage in the underground parking area at our property, we are still assessing the impact. Due to the recent occurrence of the water damage, we do not currently have an estimate of the costs to repair this damage, and we have provided each of the relevant insurance carriers a notice of claim.

Table of Contents

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

Certain information and statements included in this quarterly report on Form 10-Q, including, without limitation, statements containing the words believes, expects, may, will, should, seeks, approximately, intends, plans, estimates, or anticipates, or the negative of similar words, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, results of operations, and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by the forward-looking statements, including, but not limited to, the following:

- Negative worldwide economic, financial, and banking conditions, and the recent slowdown of the United States economy;
- Worldwide economic recession, lack of confidence, and/or high structural unemployment;
- Potential defaults on national debt by certain countries;
- Potential and further downgrades of the credit ratings of the federal, state, and foreign governments, or their perceived creditworthiness;
- Concerns regarding the European debt crisis and market perception concerning the instability of the euro;
- Failure of the United States government to agree on a debt ceiling or deficit reduction plan;
- Potential and further downgrades of the credit ratings of major financial institutions, or their perceived creditworthiness;
- Financial, banking, and credit market conditions;
- The seizure or illiquidity of credit markets;
- Failure to meet market expectations for our financial performance;
- Our inability to obtain capital (debt, construction financing, and/or equity) or refinance debt maturities;
- Our inability to comply with financial covenants in our debt agreements;
- Inflation or deflation;
- Prolonged period of stagnant growth;
- Increased interest rates and operating costs;
- Adverse economic or real estate developments in our markets;

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- Our failure to successfully complete and lease our existing space held for redevelopment and new properties acquired for that purpose and any properties undergoing development;
- Significant decreases in our active development, active redevelopment, or preconstruction activities, resulting in significant increases in our interest, operating, and payroll expenses;
- Our failure to successfully operate or lease acquired properties;
- The financial condition of our insurance carriers;
- General and local economic conditions;
- Government changes to the healthcare system and its negative impact on our client tenants;
- Adverse developments concerning the life science industry and/or our life science client tenants;
- The nature and extent of future competition;
- Lower rental rates, and/or higher vacancy rates;
- Failure to renew or replace expiring leases;
- Defaults on or non-renewal of leases by client tenants;
- Availability of and our ability to attract and retain qualified personnel;
- Our failure to comply with laws or changes in law;
- Compliance with environmental laws;
- Our failure to maintain our status as a real estate investment trust (REIT);
- Changes in laws, regulations, and financial accounting standards;
- Certain ownership interests outside the United States that may subject us to different or greater risks than those associated with our domestic operations;
- Fluctuations in foreign currency exchange rates;
- Security breaches through cyber-attacks or cyber-intrusions that could disrupt our information technology networks and related systems; and
- Changes in the method of determining LIBOR rates which may adversely affect the fair value of our financial instruments and our earnings.

Table of Contents

This list of risks and uncertainties is not exhaustive. Additional information regarding risk factors that may affect us is included under the headings *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our annual report on Form 10-K for the fiscal year ended December 31, 2011. Readers of this quarterly report on Form 10-Q should also read our Securities and Exchange Commission (SEC) and other publicly filed documents for further discussion regarding such factors.

As used in this quarterly report on Form 10-Q, references to the Company, we, our, and us refer to Alexandria Real Estate Equities, Inc. and its subsidiaries. The following discussion should be read in conjunction with the condensed consolidated financial statements and the accompanying notes appearing elsewhere in this quarterly report on Form 10-Q. References to GAAP used herein refer to United States generally accepted accounting principles.

Overview

We are a Maryland corporation formed in October 1994 that has elected to be taxed as a REIT for federal income tax purposes. We are the largest owner, preeminent REIT, and leading life science real estate company focused principally on science-driven cluster development through the ownership, operation, management, selective acquisition, development, and redevelopment of properties containing life science laboratory space. We are the leading provider of high-quality environmentally sustainable real estate, technical infrastructure, and services to the broad and diverse life science industry. Client tenants include leading multinational pharmaceutical companies, academic and medical institutions, public and private biotechnology entities, United States (U.S.) government research agencies, medical device companies, industrial biotech companies, venture capital firms, and life science product and service companies. Our primary business objective is to maximize stakeholder value by providing our stakeholders with the greatest possible total return based on a multifaceted platform of internal and external growth. Our operating platform is based on the principle of clustering, with assets and operations located adjacent to life science entities, driving growth and technological advances within each cluster.

As of September 30, 2012, we had 177 properties aggregating approximately 16.6 million rentable square feet, composed of approximately 14.4 million rentable square feet of operating properties, approximately 1.5 million rentable square feet undergoing active development, and approximately 0.7 million rentable square feet undergoing active redevelopment. Our operating properties were approximately 93.0% leased as of September 30, 2012. Our primary sources of revenues are rental income and tenant recoveries from leases of our properties. The comparability of financial data from period to period is affected by the timing of our property acquisition, development, and redevelopment activities.

2012 highlights

Core operating metrics

- Total revenues for the three months ended September 30, 2012, were \$145.5 million, compared to total revenues for the three months ended September 30, 2011, of \$138.1 million; total revenues for the nine months ended September 30, 2012, were \$431.9 million, compared to total revenues for the nine months ended September 30, 2011, of \$409.0 million;

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- Net operating income (NOI) for the three months ended September 30, 2012, was \$100.8 million, compared to NOI for the three months ended September 30, 2011, of \$97.2 million; NOI for the nine months ended September 30, 2012, was \$304.0 million, compared to NOI for the nine months ended September 30, 2011, of \$291.0 million;
- Operating margins were at 69% for the three months ended September 30, 2012;
- Cash and GAAP same property net operating income increased 4.3% and decreased 0.9%, respectively, for the three months ended September 30, 2012;
- Cash and GAAP same property net operating income increased 2.6% and decreased 0.8%, respectively, for the nine months ended September 30, 2012;
- 48% of our annualized base rent was from investment-grade client tenants;
- During the three months ended September 30, 2012, we executed 47 leases for 732,000 rentable square feet, including 266,000 rentable square feet of development and redevelopment space. Rental rates decreased 2.9% and increased 7.6% on a cash and GAAP basis, respectively, on renewed/re-leased space;
- During the nine months ended September 30, 2012, we executed 146 leases for 2,603,000 rentable square feet, including 829,000 rentable square feet of development and redevelopment space. Rental rates decreased 1.9% and increased 5.9% on a cash and GAAP basis, respectively, on renewed/re-leased space; excluding one lease for 48,000 rentable square feet related to one client tenant in the Research Triangle Park market, and one lease for 71,000 rentable square feet related to one client tenant in the Suburban Washington, D.C., market, rental rates for renewed/re-leased space were, on average, 0.1% higher and 7.3% higher than rental rates for expiring leases on a cash and GAAP basis, respectively; and

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Table of Contents

- The occupancy percentage for North America operating properties was 94.2%, and the occupancy percentage for North America operating and redevelopment properties was 90.0%; the occupancy percentage for all operating properties was 93.0%, including Asia properties, and the occupancy percentage for all operating and redevelopment properties was 88.3%, including Asia properties.

Value-added opportunities and external growth

- From November 2011 to September 2012, we completed the redevelopment of 10300 Campus Point Drive, located in the San Diego market, a 96% leased project with 279,138 rentable square feet, including the completion of 189,562 rentable square feet in September 2012
- In September 2012, we completed the development of 4755 Nexus Center Drive, located in the San Diego market, a 100% leased project with 45,255 rentable square feet;
- In June 2012, we completed the redevelopment of 3530/3550 John Hopkins Court, located in the San Diego market, a 100% leased project with 98,320 rentable square feet;
- In April 2012, we completed a development located in the Canada market, a 100% leased project with 26,426 rentable square feet;
- In April 2012, we commenced the unconsolidated joint venture development of 360 Longwood Avenue, located in the Greater Boston market, a 37% pre-leased project with 414,000 rentable square feet; and
- In January 2012, we commenced the development of 259 East Grand Avenue, located in the San Francisco Bay market, a 100% pre-leased building with 170,618 rentable square feet.

Significant balance sheet management milestones

- We have completed \$75.1 million of asset sales year to date with an additional \$34.0 million of land sales forecasted in fourth quarter 2012 for a total of \$109.1 million; and an additional \$84.5 million sales of income-producing assets in process;
- We established an at the market common stock offering program under which we may sell up to \$250.0 million of our common stock; we raised \$98.4 million in net proceeds from sales under this program for the nine months ended September 30, 2012, including \$58.5 million in net proceeds from sales under this program for the three months ended September 30, 2012;
- In June 2012, we closed a secured construction loan with aggregate commitments of \$55.0 million for a development project at 259 East Grand Avenue located in the San Francisco Bay market;
- In April 2012, we amended our \$1.5 billion unsecured senior line of credit to reduce its interest rate and extend its maturity date to April 2017, assuming we exercise our sole right to extend the maturity date twice;
- In April 2012, we redeemed all \$129.6 million of our outstanding 8.375% series C preferred stock;
- In March 2012, we completed a 6.45% series E preferred stock offering with net proceeds of \$124.9 million;

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- In February 2012, we completed our 4.60% unsecured senior notes offering with net proceeds of \$544.6 million; net proceeds from the offering were used to repay certain outstanding variable rate bank debt;
- In February 2012, we repaid all \$250.0 million of our 2012 unsecured senior bank term loan; and
- In January and April 2012, we retired all \$84.8 million of our 3.70% unsecured senior convertible notes.

Events subsequent to quarter end

- In the fourth quarter of 2012, we expect to commence vertical construction of the ground-up development of 430 East 29th Street, the West Tower of the Alexandria Center for Life Science New York City, a project with 419,806 rentable square feet located in the Greater NYC market.

Table of Contents**Projected results**

Based on our current view of existing market conditions and certain current assumptions, we expect that our earnings per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted and funds from operations (FFO) per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted for the year ended December 31, 2012, will be as set forth in the table below. The table below provides a reconciliation of FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted, as adjusted, a non-GAAP measure, to earnings per share, the most directly comparable GAAP measure.

	Year Ended December 31, 2012
Guidance for the Year Ended December 31, 2012	
Earnings per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted	\$1.16 - \$1.26
Depreciation and amortization	\$3.00 - \$3.06
Gain on sales of property	\$(0.06)
Impairment of real estate	\$0.16
FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted	\$4.32 - \$4.36
Write-off of unamortized loan fees upon early retirement of the 2012 Unsecured Senior Bank Term Loan	\$0.01
Write-off of unamortized loan fees upon modification of unsecured senior line of credit	\$0.03
Preferred stock redemption charge	\$0.10
Realized gain on equity investment primarily related to one non-tenant life science entity	\$(0.09)
FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted, as adjusted	\$4.37 - \$4.41
Key net operating income projection assumptions:	
Same property net operating income growth cash basis	3% to 4%
Same property net operating income growth GAAP basis	Slightly negative/positive
Rental rate steps on lease renewals and re-leasing of space cash basis	Slightly negative/positive
Rental rate steps on lease renewals and re-leasing of space GAAP basis	Up to 5%
Straight-line rents	\$6.5 million/qtr
Amortization of above and below market leases	\$0.8 million/qtr
Realized gain on equity investment primarily related to one non-tenant life science entity	\$5.8 million

Table of Contents**Net operating income, net income, and FFO for the three months ended December 31, 2012**

As of September 30, 2012, we had approximately \$304.6 million and \$277.5 million of construction in progress related to our five North American development and eight North American redevelopment projects, respectively. The completion of these projects, along with recently delivered projects, certain future projects, and contributions from same properties, is expected to contribute significant increases in rental income, net operating income, and cash flows. Net operating income from continuing operations is projected to increase from \$100.8 million for the three months ended September 30, 2012, to a range from \$107.5 million to \$109.5 million for the three months ended December 31, 2012 (after considering approximately \$3.0 million in required reclassifications for discontinued operations.) Operating performance assumptions related to the completion of our North America development and redevelopment projects, including the timing of initial occupancy, stabilization dates, and Initial Stabilized Yields, are included on page 51. Certain key assumptions regarding our projections, including the impact of various development and redevelopment projects, are included in the tables below.

The completion of our development and redevelopment projects will result in increased interest expense and other direct project costs, because these project costs will no longer qualify for capitalization and these costs will be expensed as incurred. Our projections for general and administrative expenses, capitalization of interest, and interest expense, net, are included in the tables on the preceding page and below. Our projections of net operating income are subject to a number of variables and uncertainties, including those discussed under the Forward-looking Statements section of Part I, the Risk Factors section of Item 1A, and the Management's Discussion and Analysis of Financial Condition and Results of Operations section under Item 7, of our annual report on Form 10-K for the year ended December 31, 2011. To the extent our full year earnings guidance is updated during the year, we will provide additional disclosure supporting reasons for any significant changes to such guidance. Further, we believe net operating income is a key performance indicator and is useful to investors as a performance measure because, when compared across periods, net operating income reflects the impact on operations from trends in occupancy rates, rental rates, and operating costs, providing perspective not immediately apparent from income from continuing operations.

Three Months Ended December 31, 2012 (in millions, except per share amounts)	Reported on October 26, 2012
Net operating income:	
Continuing operations	\$107.5 - \$109.5
Incremental dispositions classified in discontinued operations	\$3.0
Total net operating income	\$110.5 - \$112.5
General and administrative	\$11.0 - \$12.0
Capitalization of interest	\$13.6 - \$14.6
Interest	\$18.0 - \$20.0
Depreciation and amortization	\$42.6 - \$47.7
Preferred stock dividends	\$6.5
Other	\$1.0 - \$1.4
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders	\$26.9 - \$30.9
FFO	\$72.0 - \$73.0
FFO per share diluted	\$1.15 - \$1.17

Table of Contents

Leasing

For the three months ended September 30, 2012, we executed a total of 47 leases for approximately 732,000 rentable square feet at 34 different properties (excluding month-to-month leases). Of this total, approximately 352,000 rentable square feet related to new or renewal leases of previously leased space (renewed/re-leased space), and approximately 380,000 rentable square feet related to developed, redeveloped, or previously vacant space. Of the 380,000 rentable square feet, approximately 266,000 rentable square feet related to our development or redevelopment programs, and the remaining approximately 114,000 rentable square feet related to previously vacant space. Rental rates for this renewed/re-leased space were, on average, approximately 2.9% lower on a cash basis and approximately 7.6% higher on a GAAP basis than rental rates for the respective expiring leases. Additionally, we granted tenant concessions, including free rent averaging approximately 1.8 months, with respect to the 732,000 rentable square feet leased during the three months ended September 30, 2012. Approximately 75% of the number of leases executed during the three months ended September 30, 2012, did not include concessions for free rent. Weighted average lease term for the three months ended September 30, 2012, was 6.8 years.

For the nine months ended September 30, 2012, we executed a total of 146 leases for approximately 2,603,000 rentable square feet at 77 different properties (excluding month-to-month leases). Of this total, approximately 1,161,000 rentable square feet related to new or renewal leases of previously leased space (renewed/re-leased space), and approximately 1,442,000 rentable square feet related to developed, redeveloped, or previously vacant space. Of the 1,442,000 rentable square feet, approximately 829,000 rentable square feet related to our development or redevelopment programs, and the remaining approximately 613,000 rentable square feet related to previously vacant space. Rental rates for this renewed/re-leased space were, on average, approximately 1.9% lower on a cash basis and approximately 5.9% higher on a GAAP basis than rental rates for the respective expiring leases. Excluding one lease for 48,000 rentable square feet related to one client tenant in the Research Triangle Park market and one lease for 71,000 rentable square feet related to one client tenant in the Suburban Washington, D.C., market, rental rates for renewed/re-leased space were, on average, 0.1% higher and 7.3% higher than rental rates for expiring leases on a cash and GAAP basis, respectively. Additionally, we granted tenant concessions, including free rent averaging approximately 1.7 months, with respect to the 2,603,000 rentable square feet leased during the nine months ended September 30, 2012. Approximately 71% of the number of leases executed during the nine months ended September 30, 2012, did not include concessions for free rent. Weighted average lease term for the nine months ended September 30, 2012, was 7.1 years.

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. Additionally, approximately 96% of our leases (on a rentable square footage basis) contained effective annual rent escalations that were either fixed or indexed based on a consumer price index or another index, and approximately 91% of our leases (on a rentable square footage basis) provided for the recapture of certain capital expenditures.

[Table of Contents](#)

Summary of Lease Expirations

The following table summarizes information with respect to the lease expirations at our properties as of September 30, 2012:

Year of Lease Expiration	Number of Leases Expiring	RSF of Expiring Leases	Percentage of Aggregate Total RSF	Annualized Base Rent of Expiring Leases (per RSF)
2012	21 (1)	490,382 (1)	3.5%	\$25.84
2013	88	953,531	6.9%	\$28.31
2014	86	1,237,589	8.9%	\$30.23
2015	67	1,259,426	9.1%	\$31.81
2016	52	1,432,820	10.3%	\$30.33
2017	59	1,506,498	10.9%	\$30.38
2018	19	1,143,754	8.3%	\$39.62
2019	16	595,324	4.3%	\$34.18
2020	15	731,680	5.3%	\$40.36
2021	19	697,828	5.0%	\$38.70
Thereafter	32	2,151,820	15.5%	\$39.15

Market	Leased	Negotiating/ Anticipating	2012 RSF of Expiring Leases Targeted for Redevelopment	Remaining Expiring Leases	Total	Annualized Base Rent of Expiring Leases (per RSF)	Market Rent per RSF (2)
Greater Boston	13,091	3,169		40,207	56,467	\$ 31.58	\$ 25.00 - \$59.00
San Francisco Bay			32,074	(3) 21,176	53,250	63.16	\$ 20.00 - \$47.00
San Diego	23,218		243,550	(4) 3,000	269,768	21.94	\$ 16.00 - \$36.00
Greater NYC							N/A
Suburban Washington, D.C.							\$ 14.00 - \$32.00
Seattle	14,198		66,776	(5) 5,339	86,313	13.38	\$ 17.00 - \$44.00
Research Triangle Park	4,575			10,052	14,627	24.34	\$ 10.00 - \$32.00
Canada							N/A
Non-cluster markets							N/A
Asia				9,957	9,957	9.77	\$ 8.00 - \$26.00
Total	55,082	3,169	342,400	89,731	490,382	(1) \$ 25.84	
Percentage of expiring leases	11	% 1	% 70	% 18	% 100	%	

Market	Leased	Negotiating/ Anticipating	2013 RSF of Expiring Leases Targeted for Redevelopment	Remaining Expiring Leases	Total	Annualized Base Rent of Expiring Leases (per RSF)	Market Rent per RSF (2)
Greater Boston		102,215		80,290	182,505	\$ 39.33	\$ 25.00 - \$59.00
San Francisco Bay		51,281		234,764	286,045	26.18	\$ 20.00 - \$47.00
San Diego	2,835			128,876	131,711	21.73	\$ 16.00 - \$36.00
Greater NYC							N/A

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Suburban							14.00 -
Washington, D.C.	66,162	54,906	(6)	127,190	248,258	30.55	\$ \$32.00
Seattle							N/A
Research Triangle							10.00 -
Park	16,560			52,928	69,488	18.62	\$ \$32.00
Canada							N/A
Non-cluster markets							14.00 -
	4,006			21,224	25,230	16.85	\$ \$22.00
Asia							8.00 -
	2,314			7,980	10,294	15.54	\$ \$26.00
Total	2,835	242,538	54,906	653,252	953,531	\$ 28.31	
Percentage of expiring leases	% 25	% 6	% 69	% 100	%		

(1) Excludes 10 month-to-month leases for approximately 25,000 rentable square feet.

(2) Based upon rental rates achieved in recently executed leases over the trailing 12 months.

(3) Represents a future redevelopment project containing 32,074 rentable square feet at 2625/2627/2631 Hanover Street in the Palo Alto submarket. The current lease expiration date is December 31, 2012. The client tenant may extend the lease on a short-term basis. Upon rollover, we expect to commence redevelopment of this property.

(4) Represents a project containing 176,500 rentable square feet of non-laboratory space at 3013/3033 Science Park Road, which consists of two buildings acquired in April 2012. The property was 100% leased on a short-term basis and, upon rollover in the fourth quarter of 2012, we expect to redevelop approximately 98,000 rentable square feet. The remaining 78,500 rentable square feet will be classified as future developable square feet. Also, represents a future redevelopment project containing 67,000 rentable square feet at 4757 Nexus Center Drive. The current lease expiration date at 4757 Nexus Center Drive is November 14, 2012.

(5) Represents a future redevelopment project containing 66,776 rentable square feet of office space at 1616 Eastlake Boulevard in the Seattle market. Of the 66,776 rentable square feet targeted for redevelopment into laboratory space, approximately 41,000 rentable square feet, or 61%, has been pre-leased. Redevelopment of this space began in October 2012.

(6) Represents a project containing 54,906 rentable square feet at 5 Research Court in the Rockville submarket. We expect to redevelop the asset into single or multi-tenant laboratory space beginning in the fourth quarter of 2013.

Table of Contents**Client tenants**

Our life science properties are leased to a diverse group of client tenants, with no client tenant accounting for more than 7.3% of our annualized base rent. The following table sets forth information regarding leases with our 20 largest client tenants based upon annualized base rent as of September 30, 2012 (dollars in thousands):

	Client Tenant	Number of Leases	Remaining Lease Term in Years		Approximate Aggregate Rentable Square Feet	Percentage of Aggregate Total Square Feet	Annualized Base Rent	Percentage of Aggregate Annualized Base Rent		Investment-Grade Entities (3)			
			(1)	(2)				Base Rent	Base Rent	Fitch Rating	Moody's Rating	S&P Rating	Education/Research
1	Novartis AG	11	4.1	4.3	608,876	3.7%	\$ 30,544	7.3%	AA	Aa2	AA-		
2	Bristol-Myers Squibb Company	6	5.1	5.4	419,624	2.5	15,840	3.8	A+	A2	A+		
3	Eli Lilly and Company	5	8.8	10.4	262,182	1.6	15,048	3.6	A	A2	AA-		
4	FibroGen, Inc.	1	11.1	11.1	234,249	1.4	14,197	3.4					
5	Roche	3	5.5	5.6	348,918	2.1	13,867	3.3	AA-	A1	AA-		
6	Illumina, Inc.	1	19.1	19.1	346,581	2.1	13,474	3.2					
7	United States Government	8	4.3	5.3	324,577	1.9	12,727	3.0	AAA	Aaa	AA+		
8	GlaxoSmithKline plc	4	7.2	6.9	207,812	1.2	10,238	2.4	A+	A1	A+		
9	Celgene Corporation	4	9.0	8.9	255,780	1.5	9,565	2.3		Baa2	BBB+		
10	Massachusetts Institute of Technology	3	4.7	4.9	178,952	1.1	8,230	2.0		Aaa	AAA		ü
11	The Regents of the University of California	3	8.9	8.9	182,242	1.1	7,435	1.8	AA+	Aa1	AA		ü
12	NYU-Neuroscience Translational Research Institute	2	13.2	12.4	78,597	0.5	6,993	1.7		Aa3	AA-		ü
13	Alnylam Pharmaceuticals, Inc. (4)	1	4.0	4.0	129,424	0.8	6,066	1.4					
14	Gilead Sciences, Inc.	1	7.8	7.8	109,969	0.7	5,824	1.4		Baa1	A-		
15	Pfizer Inc.	2	6.7	6.5	116,518	0.7	5,502	1.3	A+	A1	AA		
16	The Scripps Research Institute	2	4.2	4.1	99,377	0.6	5,197	1.2	AA-	Aa3			ü
17	Theravance, Inc. (5)	2	7.7	7.7	130,342	0.8	4,895	1.2					
18	Infinity Pharmaceuticals, Inc.	2	2.3	2.3	68,020	0.4	4,423	1.1					
19	Qiagen N.V.	2	3.8	3.8	158,879	0.9	4,380	1.0					
20	Quest Diagnostics Incorporated	1	4.3	4.3	248,186	1.5	4,341	1.0	BBB+	Baa2	BBB+		
	Total/Weighted Average:	64	7.1	7.5	4,509,105	27.1%	\$ 198,786	47.4%					

(1) Represents remaining lease term in years based on percentage of leased square feet.

(2) Represents remaining lease term in years based on percentage of annualized base rent in effect as of September 30, 2012.

(3) Ratings obtained from Fitch Ratings, Moody's Investors Service, and Standard & Poor's.

(4) As of June 30, 2012, Novartis AG owned approximately 11% of the outstanding stock of Alnylam Pharmaceuticals, Inc.

(5) As of July 25, 2012, GlaxoSmithKline plc owned approximately 27% of the outstanding stock of Theravance, Inc.

The chart below shows client tenant business type by annualized base rent as of September 30, 2012:

Table of Contents

Location of properties

The locations of our properties are diversified among a number of life science cluster markets. The following table sets forth, as of September 30, 2012, the total rentable square feet and annualized base rent of our properties in each of our existing markets (dollars in thousands):

Market	Rentable Square Feet						Number of	Annualized Base Rent	
	Operating	Development	Redevelopment	Total	% Total		Properties		
Greater Boston	2,789,481	303,143	329,438	3,422,062	21%		35	\$	107,743 26%
San Francisco Bay	2,252,790	456,740	53,980	2,763,510	16		25		88,535 21
San Diego	2,628,695	127,373	53,784	2,809,852	17		36		82,974 20
Greater NYC	534,827			534,827	3		6		31,278 7
Suburban Washington, D.C.	2,334,863		101,183	2,436,046	15		31		48,768 12
Seattle	694,042		52,141	746,183	4		10		27,052 6
Research Triangle Park	941,807			941,807	6		14		19,213 5
Canada	1,096,077			1,096,077	7		5		9,172 2
Non-cluster markets	61,002			61,002			2		599
North America	13,333,584	887,256	590,526	14,811,366	89		164		415,334 99
Asia	592,188	618,976	112,061	1,323,225	8		9	4,588	1
Continuing operations	13,925,772	1,506,232	702,587	16,134,591	97		173	\$ 419,922	100%
Discontinued operations	504,130			504,130	3		4		
Total	14,429,902	1,506,232	702,587	16,638,721	100%		177		

(1) Annualized base rent means the annualized fixed base rental amount in effect as of September 30, 2012 (using rental revenue computed on a straight-line basis in accordance with GAAP). Represents annualized base rent related to our operating rentable square feet.

Our average occupancy rate for operating properties as of December 31 of each year from 2000 to 2011, and September 30, 2012, was approximately 94.9%. Our average occupancy rate for operating and redevelopment properties as of December 31 of each year from 2000 to 2011, and September 30, 2012, was approximately 88.7%.

Table of Contents

Value-added projects

A key component of our business model is our value-added development and redevelopment programs. These programs are focused on providing high-quality, generic, and reusable life science laboratory space to meet the real estate requirements of a wide range of clients in the life science industry. Upon completion, each value-added project is expected to generate significant revenues and cash flows. Our development and redevelopment projects are generally in locations that are highly desirable to life science entities, which we believe results in higher occupancy levels, longer lease terms, and higher rental income and returns.

Development projects generally consist of the ground-up development of generic and reusable life science laboratory facilities. Redevelopment projects generally consist of the permanent change in use of office, warehouse, and shell space into generic life science laboratory space, including the conversion of single-tenancy space to multi-tenancy space, or vice versa. We anticipate execution of new active development projects for aboveground vertical construction of new life science laboratory space generally only with pre-leasing. Preconstruction activities include entitlements, permitting, design, site work, and other activities prior to commencement of vertical construction of aboveground shell and core improvements. Our objective also includes the advancement of preconstruction efforts to reduce the time required to deliver projects to prospective client tenants. These critical activities add significant value for future ground-up development and are required for the vertical construction of buildings. Ultimately, these projects will provide high-quality facilities for the life science industry and are expected to generate significant revenue and cash flows for the Company.

Development and redevelopment projects in Asia represent development opportunities focusing on life science laboratory space for our current client tenants and other life science entities. These projects focus on real estate investments with targeted returns on investment greater than returns expected in the U.S. We have approximately 422,000 square feet undergoing construction in India. Additionally, we have a two-building development project located in North China aggregating approximately 309,000 rentable square feet undergoing construction. Our development, redevelopment, and preconstruction projects as well as certain real estate in Asia are classified as construction in progress.

Our investments in real estate, net, consisted of the following as of September 30, 2012 (dollars in thousands):

	September 30, 2012	
	Book Value	Square Feet
Land (related to rental properties)	\$ 506,823	
Buildings and building improvements	4,682,998	
Other improvements	184,301	
Rental properties	5,374,122	14,429,902
Less: accumulated depreciation	(854,332)	
Rental properties, net	4,519,790	
Construction in progress (CIP)/current value-added projects:		
Active development in North America	304,619	887,256
Active redevelopment in North America	277,506	590,526
Generic infrastructure/building improvement projects in North America	72,739	
Active development and redevelopment in Asia	95,301	731,037
	750,165	2,208,819
Subtotal	5,269,955	16,638,721

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Land/future value-added projects:		
Land held for future development in North America	326,932	5,451,000
Land undergoing preconstruction activities (additional CIP) in North America	597,631	2,370,000
Land held for future development/land undergoing preconstruction activities (additional CIP) in Asia	78,511	6,789,000
	1,003,074	14,610,000
Investment in unconsolidated real estate entity	26,998	414,000
Investments in real estate, net	\$ 6,300,027	31,662,721

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Table of Contents

The following table provides detail on our North America development and redevelopment projects as of September 30, 2012 (dollars in thousands):

In	Project RSF			Leased Status RSF				% Leased/ September 30, 2012		Investment To Complete		Total at	Initial Stabilized Yield (1)		Project Start	Occupancy
Service	CIP	Total	Leased	Negotiating	Marketing	Total	Negotiating	In Service	CIP	2012	Thereafter	Completion	Cash	GAAP	Date	Date
	303,143	303,143	303,143			303,143	100%									
	303,143	303,143	303,143			303,143	100%									
	222,780	222,780			222,780	222,780										
	222,780	222,780			222,780	222,780										
	170,618	170,618	170,618			170,618	100%									
	170,618	170,618	170,618			170,618	100%									
	170,618	170,618	170,618			170,618	100%									
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		</														

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33,803 590,526 674,329 456,241 63,270 154,818 674,329 77%

\$ 53,795 \$ 277,506 \$ 26,125 \$ 59,856 \$ 417,282

33,497 1,477,782 1,661,279 1,185,107 63,270 412,902 1,661,279 75% \$ 132,935 \$ 582,125 \$ 59,469 \$ 219,409 \$ 993,938

(1) As of September 30, 2012, 96% of our overall leases contained annual rent escalations that were either fixed or based on a consumer price index or another index. Our Initial Stabilized Yield on a cash basis reflects cash rents upon stabilization and does not reflect contractual rent escalations beyond the stabilization date. We expect, on average, our contractual cash rents related to our value-added projects to increase over time.

(2) The cash and GAAP Initial Stabilized Yields related to the development of 499 Illinois Street declined by approximately 0.3% and 0.2%, respectively, to allow for a slightly longer absorption period. Despite this change, we still expect to achieve overall yields for the entire project (including the occupied portion of 409 Illinois Street) within our original expectations of 6.5%-7.0% and 7.2%-7.6% for cash and GAAP, respectively.

(3) Funding for this project will be provided primarily by the \$55.0 million secured construction loan we closed in June 2012.

(4) As of the period end, some portion of the real estate basis associated with the rentable square feet under development or redevelopment was classified as in service because activities necessary to prepare the asset for its intended use were no longer in process. In the near future, we anticipate recommencing activities necessary to prepare the asset for its intended use upon execution of leasing and final decisions related to the design of each space.

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Table of Contents

The following table summarizes the components of the square footage of our future value-added projects in North America as of September 30, 2012:

Market	Land Undergoing		Land Held for Future Development	Total Land (1)	Future Redevelopment (2)
	Preconstruction Activities (additional CIP)	(3)			
Greater Boston	1,589,000	(3)	155,000	1,744,000	119,000
San Francisco Bay - Mission Bay			290,000	290,000	
San Francisco Bay - South San Francisco			1,024,000	1,024,000	40,000
San Diego	255,000	(4)	522,000	777,000	264,000
Greater NYC	420,000	(1) (5)		420,000	
Suburban Washington, D.C.			1,274,000	1,274,000	416,000
Seattle	106,000	(6)	959,000	1,065,000	82,000
Other markets			1,085,000	1,085,000	105,000
Canada			142,000	142,000	
Total future value-added projects in North America	2,370,000		5,451,000	7,821,000	1,026,000

- (1) In addition to assets included in our gross investment in real estate, we hold options/rights for parcels supporting the future ground-up development of approximately 385,000 rentable square feet in Alexandria Center for Life Science New York City related to an option under our ground lease.
- (2) Our asset base also includes non-laboratory space (office, warehouse, and industrial space) identified for future conversion into life science laboratory space through redevelopment. These spaces are classified in investments in real estate, net, in the condensed consolidated balance sheets.
- (3) Represents preconstruction related to four future ground-up development projects aggregating 1.6 million rentable square feet related to The Alexandria Center at Kendall Square.
- (4) Represents preconstruction related to a future development site for 205,000 rentable square feet in Torrey Pines. This site also contains a parking structure and other improvements. Additionally, this also includes a future development site for 50,000 rentable square feet in University Town Center.
- (5) Represents preconstruction related to a future ground-up development project for 419,806 rentable square feet for the West Tower of the Alexandria Center for Life Science New York City. Our investment to date includes costs related to steel, curtain wall, foundation, and underground parking garage.
- (6) Represents preconstruction related to a future ground-up development project for 106,000 rentable square feet in Lake Union.

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Table of Contents

As of September 30, 2012, our rental properties, net, in Asia, were made up of five operating properties aggregating approximately 592,000 square feet, with occupancy of 68%. Annualized base rent of our operating properties in Asia was approximately \$4.2 million as of September 30, 2012. Our primary sources of revenues are rental income and tenant recoveries from leases of our properties. The comparability of financial data from period to period is affected by the timing of our property acquisition, development, and redevelopment activities.

Our investments in real estate, net, in Asia, consisted of the following as of September 30, 2012 (dollars in thousands, except per square foot amount):

	September 30, 2012		Cost per
	Book Value	Square Feet	Square Foot
Rental properties, net, in China	\$ 21,435	299,484	\$ 72
Rental properties, net, in India	31,191	292,704	107
CIP/current value-added projects:			
Active development in China	56,098	309,476	181
Active development in India	26,337	309,500	85
Active redevelopment projects in India	12,866	112,061	115
	95,301	731,037	130
Land held for future development/land undergoing preconstruction activities (additional CIP) - India	78,511	6,789,000	12
Total investments in real estate, net, in Asia	\$ 226,438	8,112,225	\$ 28

The following table provides detail on our Asia development and redevelopment projects as of September 30, 2012 (dollars in thousands):

Description	Project RSF			Leased Status RSF					September 30, 2012		Investment		Total at Completion
	In Service	CIP	Total	Leased	Negotiating	Marketing	Total	Leased/ Negotiating %	In Service	CIP	To Complete 2012	Thereafter	
China development project		309,476	309,476			309,476	309,476	%					
India development projects		309,500	309,500			309,500	309,500	%	\$	\$ 56,098	\$ 1,767	\$ 24,435	\$ 82,300
India redevelopment projects										26,337	7,939	17,509	51,785
Total active development and redevelopment in Asia	29,546	112,061	141,607	29,546	44,660	67,401	141,607	52%	3,729	12,866	4,774	1,340	22,709
	29,546	731,037	760,583						\$ 3,729	\$ 95,301	\$ 14,480	\$ 43,284	\$ 156,794

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Table of Contents

Significant balance sheet management milestones (in thousands)

Milestones	Transaction Date	Amount (1)
Issuance of common stock under at the market common stock offering program (2)	June 2012 to September 2012	\$ 98,429
Secured construction loan with aggregate commitment of \$55.0 million (3)	June 2012	\$ 55,000
Amendment of \$1.5 billion unsecured senior line of credit (4)	April 2012	\$ 1,500,000
Redemption of 8.375% Series C Preferred Stock	April 2012	\$ (129,638)
Issuance of 6.45% Series E Preferred Stock	March 2012	\$ 124,868
Sale of interest in land parcel to joint venture partner	March 2012	\$ 31,360
Repayment of 2012 Unsecured Senior Bank Term Loan	February 2012	\$ (250,000)
4.60% unsecured senior notes offering	February 2012	\$ 544,649
Repurchase of 3.70% Unsecured Senior Convertible Notes	January/April 2012	\$ (84,801)

(1) Net of discounts and offering costs, as applicable.

(2) We may sell, from time to time, up to \$250.0 million of our common stock under our at the market common stock offering program.

(3) Outstanding balance of secured construction loan as of September 30, 2012, was approximately \$2 million.

(4) Outstanding balance of unsecured senior line of credit as of September 30, 2012, was approximately \$413 million.

Investment-grade ratings and key credit metrics

In July 2011, we received investment-grade ratings from two major rating agencies. Receipt of our investment-grade ratings was a significant milestone that we believe will provide long-term value to our stakeholders. Key strengths of our balance sheet and business that highlight our investment-grade credit profile include balance sheet liquidity, a diverse and creditworthy client tenant base, well-located properties proximate to leading research institutions, favorable lease terms, stable occupancy and cash flows, and demonstrated life science and real estate expertise. This significant milestone broadens our access to another key source of debt capital and allows us to continue to pursue our long-term capital, investment, and operating strategies. The issuance of investment-grade unsecured senior notes payable has allowed us to begin the transition from bank debt financing to unsecured senior notes payable, from variable rate debt to fixed rate debt, and from short-term debt to long-term debt. While this transition of bank debt is in process, we will utilize interest rate swap agreements to reduce our interest rate risk. We expect to keep our unhedged variable rate debt at less than 20% of our total debt.

Key Credit Metrics (1)	2012	Three Months Ended September 30, 2011
Net debt to adjusted EBITDA	7.6x	6.8x
Net debt to gross assets (excluding cash and restricted cash) (2)	38%	36%
Fixed charge coverage ratio	2.5x	2.7x
Interest coverage ratio	3.1x	3.4x
Unencumbered net operating income as a percentage of total net operating income	73%	66%
Liquidity unsecured senior line of credit availability and unrestricted cash (2)	\$1.2 billion	\$0.8 billion
Non-income-producing assets as a percentage of gross real estate (2)	25%	25%
Unhedged variable rate debt as a percentage of total debt (2)	15%	51%

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- (1) These metrics reflect certain non-GAAP financial measures. See [Non-GAAP Measures](#) for more information, including definitions and reconciliations to the most directly comparable GAAP measures.
- (2) At the end of the period.

Table of Contents**Critical Accounting Policies**

Refer to our annual report on Form 10-K for the year ended December 31, 2011, for a discussion of our critical accounting policies, which include rental properties, net, land held for future development, construction in progress, discontinued operations, impairment of long-lived assets, capitalization of costs, accounting for investments, interest rate hedge agreements, and recognition of rental income and tenant recoveries. There have been no significant changes to these policies during the nine months ended September 30, 2012.

Results of operations

The following table presents information regarding our asset base and value-added projects as of September 30, 2012 and 2011:

	September 30,	
	2012	2011
Rentable square feet		
Rentable square feet of operating properties	14,429,902	13,599,073
Rentable square feet of total properties	16,638,721	14,877,807
Number of properties	177	171
Occupancy operating	93.0%	94.6%
Occupancy operating and redevelopment	88.3%	89.3%
Annualized base rent per leased rentable square foot	\$ 34.32	\$ 34.39

As a result of changes within our total property portfolio, the financial data presented in the table on the following page shows significant changes in revenue and expenses from period to period. In order to supplement an evaluation of our results of operations over a given period, we analyze the operating performance for all properties that were fully operating for the entire periods presented (herein referred to as Same Properties) separate from properties acquired subsequent to the first period presented, properties undergoing active development and active redevelopment, and corporate entities (legal entities performing general and administrative functions), which are excluded from same property results (herein referred to as Non-Same Properties). Additionally, rental revenues from lease termination fees, if any, are excluded from the results of the Same Properties. For the three months ended September 30, 2012 and 2011, our Same Properties consisted of 136 operating properties aggregating approximately 10.0 million rentable square feet with occupancy of 93.7% and 93.2% for each period, respectively. For the nine months ended September 30, 2012 and 2011, our Same Properties consisted of 133 operating properties aggregating approximately 9.8 million rentable square feet with occupancy of 93.7% and 93.5% for each period, respectively.

Net operating income is a non-GAAP financial measure equal to income from continuing operations, the most directly comparable GAAP financial measure, plus loss on early extinguishment of debt, depreciation and amortization, interest expense, and general and administrative expense. We believe net operating income provides useful information to investors regarding our financial condition and results of operations because it reflects primarily those income and expense items that are incurred at the property level. Therefore, we believe net operating income is a useful measure for evaluating the operating performance of our real estate assets. Net operating income on a cash basis is net operating income on a GAAP basis, adjusted to exclude the effect of straight-line rent adjustments required by GAAP. We believe that net operating income on a cash basis is helpful to investors as an additional measure of operating performance because it eliminates straight-line rent adjustments to rental revenue.

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Further, we believe net operating income is useful to investors as a performance measure, because when compared across periods, net operating income reflects the impact on operations from trends in occupancy rates, rental rates, and operating costs, providing perspective not immediately apparent from income from continuing operations. Net operating income excludes certain components from income from continuing operations in order to provide results that are more closely related to the results of operations of our properties. For example, interest expense is not necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level rather than at the property level. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. Property operating expenses that are included in determining net operating income consist of costs that are related to our operating properties, such as utilities, repairs and maintenance, rental expense related to ground leases, contracted services, such as janitorial, engineering, and landscaping, property taxes and insurance, and property level salaries. General and administrative expenses consist primarily of accounting and corporate compensation, including stock compensation, corporate insurance, professional fees, office rent, and office supplies, that are incurred as part of corporate office management. Net operating income presented by us may not be comparable to net operating income reported by other equity REITs that define net operating income differently. We believe that in order to facilitate a clear understanding of our operating results, net operating income should be examined in conjunction with income from continuing operations as presented in our condensed consolidated statements of income. Net operating income should not be considered as an alternative to income from continuing operations as an indication of our performance, or as an alternative to cash flows as a measure of liquidity, or our ability to make distributions.

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Table of Contents

Comparison of the three months ended September 30, 2012, to the three months ended September 30, 2011

The following table presents a comparison of the components of net operating income for our Same Properties and Non-Same Properties for the three months ended September 30, 2012, compared to the three months ended September 30, 2011, and a reconciliation of net operating income to income from continuing operations, the most directly comparable financial measure (in thousands):

	2012	Three Months Ended September 30, 2011	\$ Change	% Change
Revenues:				
Rental Same Properties	\$ 82,008	\$ 81,842	\$ 166	%
Rental Non-Same Properties	26,359	20,511	5,848	29
Total rental	108,367	102,353	6,014	6
Tenant recoveries Same Properties	27,023	27,903	(880)	(3)
Tenant recoveries Non-Same Properties	7,425	5,323	2,102	39
Total tenant recoveries	34,448	33,226	1,222	4
Other income Same Properties	279	22	257	1168
Other income Non-Same Properties	2,361	2,453	(92)	(4)
Total other income	2,640	2,475	165	7
Total revenues Same Properties	109,310	109,767	(457)	
Total revenues Non-Same Properties	36,145	28,287	7,858	28
Total revenues	145,455	138,054	7,401	5
Expenses:				
Rental operations Same Properties	32,739	32,473	266	1
Rental operations Non-Same Properties	11,875	8,386	3,489	42
Total rental operations	44,614	40,859	3,755	9
Net operating income:				
Net operating income Same Properties	76,571	77,294	(723)	(1)
Net operating income Non-Same Properties	24,270	19,901	4,369	22
Total net operating income	100,841	97,195	3,646	4
Other expenses:				
General and administrative	12,485	10,289	2,196	21
Interest	17,094	14,273	2,821	20
Depreciation and amortization	47,176	38,747	8,429	22
Loss on early extinguishment of debt		2,742	(2,742)	(100)
	76,755	66,051	10,704	16
Income from continuing operations	\$ 24,086	\$ 31,144	\$ (7,058)	(23%)

Rental revenues

Total rental revenues for the three months ended September 30, 2012, increased by \$6.0 million, or 6%, to \$108.4 million, compared to \$102.4 million for the three months ended September 30, 2011. The increase was due to rental revenues from our Non-Same Properties, including eight development and redevelopment projects that were completed and delivered after July 1, 2011, and three operating properties that were acquired

after July 1, 2011.

Table of Contents

Tenant recoveries

Tenant recoveries for the three months ended September 30, 2012, compared to the three months ended September 30, 2011, increased by \$1.2 million, or 4%, to \$34.4 million, compared to an increase of \$3.7 million, or 9%, of rental operating expenses. Non-Same Properties tenant recoveries increased by \$2.1 million, while Non-Same Properties rental operating expenses increased by \$3.5 million, primarily due to some vacancies related to development and redevelopment properties delivered into operating properties since July 1, 2011, and an increase in certain non-recoverable expenses. As of September 30, 2012, approximately 94% of our leases (on a rentable square footage basis) were triple net leases, requiring 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.

Other income

Other income for the three months ended September 30, 2012 and 2011, of \$2.6 million and \$2.5 million, respectively, represents construction management fees, interest, and investment income. The increase of approximately \$0.1 million is primarily due to an increase in construction management fees and interest income, offset by lower investment income, for the three months ended September 30, 2012, compared to the three months ended September 30, 2011.

Rental operating expenses

Total rental operating expenses for the three months ended September 30, 2012, increased by \$3.7 million, or 9%, to \$44.6 million, compared to \$40.9 million for the three months ended September 30, 2011. Approximately \$3.5 million of the increase was due to an increase in rental operating expenses from our Non-Same Properties, primarily related to eight development and redevelopment projects that were completed and delivered after July 1, 2011, and three operating properties that were acquired after July 1, 2011. The remaining \$0.2 million increase was due to increases in rental operating expenses from our Same Properties. The increase in rental operating expenses at our Same Properties was primarily due to normal year-over-year increases in repairs and maintenance expenses and rental expense related to ground leases.

General and administrative expenses

General and administrative expenses for the three months ended September 30, 2012, increased by \$2.2 million, or 21%, to \$12.5 million, compared to \$10.3 million for the three months ended September 30, 2011. The increase was primarily due to an increase in payroll expenses related to an increase in the number of employees related to the growth in both the depth and breadth of our operations in multiple markets. Since July 1, 2011, the number of our employees has increased by approximately 14%. As a percentage of total revenues, general and administrative expenses were 8.6% and 7.5%, respectively, for the three months ended September 30, 2012 and 2011.

Interest expense

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Interest expense for the three months ended September 30, 2012, increased by \$2.8 million, or 20%, to \$17.1 million, compared to \$14.3 million for the three months ended September 30, 2011, detailed as follows (in thousands):

Component	Three Months Ended September 30,			Change
	2012	2011		
Secured notes payable	\$ 10,151	\$ 11,652	\$	(1,501)
Unsecured senior convertible notes	6	1,812		(1,806)
Unsecured senior notes payable	6,405			6,405
Unsecured senior line of credit	2,570	6,243		(3,673)
Unsecured senior bank term loan	6,237	3,666		2,571
Interest rate swaps	5,956	5,381		575
Amortization of loan fees and other interest	2,532	2,185		347
Capitalized interest	(16,763)	(16,666)		(97)
Total interest expense	\$ 17,094	\$ 14,273	\$	2,821

Table of Contents

Interest expense increased primarily due to the issuance of our unsecured senior notes payable and an increase in the balance outstanding on our unsecured senior bank term loans since July 1, 2011. This increase was partially offset by repayments of five secured notes payable approximating \$45.2 million and repurchases of our 3.70% unsecured senior convertible notes (3.70% Unsecured Senior Convertible Notes) aggregating \$203.4 million since July 1, 2011. Interest expense related to our unsecured senior line of credit also decreased, primarily due to a lower average balance outstanding during the three months ended September 30, 2012, compared to the three months ended September 30, 2011, and a decrease in effective interest rate from 2.52% as of September 30, 2011, to 1.43% as of September 30, 2012. We have entered into certain interest rate swap agreements to hedge a portion of our exposure primarily related to variable interest rates associated with our unsecured senior line of credit and unsecured senior bank term loans (see Liquidity and Capital Resources - Contractual Obligations Interest Rate Swap Agreements).

Depreciation and amortization

Depreciation and amortization for the three months ended September 30, 2012, increased by \$8.5 million, or 22%, to \$47.2 million, compared to \$38.7 million for the three months ended September 30, 2011. The increase resulted primarily from increased depreciation related to building improvements and other assets, including eight development and redevelopment projects that were completed and delivered after July 1, 2011, and three operating properties that were acquired after July 1, 2011.

Loss on early extinguishment of debt

During the three months ended September 30, 2012, we did not recognize any loss on early extinguishment of debt. During the three months ended September 30, 2011, we recognized an aggregate loss on early extinguishment of debt of approximately \$2.7 million related to the repurchase, in privately negotiated transactions, of approximately \$121.1 million principal amount of our 3.70% Unsecured Convertible Notes for an aggregate cash price of approximately \$122.8 million.

(Loss) income from discontinued operations, net

Loss from discontinued operations, net, of \$5.8 million for the three 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 five properties sold during the three months ended September 30, 2012. Income from discontinued operations, net, of \$1.8 million for the three 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, two properties held for sale as of September 30, 2011, and the results of operations of five properties sold during the three months ended September 30, 2012.

Impairment of real estate

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

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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.

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Table of Contents

Comparison of the nine months ended September 30, 2012, to the nine months ended September 30, 2011

The following table presents a comparison of the components of net operating income for our Same Properties and Non-Same Properties for the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011, and a reconciliation of net operating income to income from continuing operations, the most directly comparable financial measure (in thousands):

	2012	Nine Months Ended September 30,		
		2011	\$ Change	% Change
Revenues:				
Rental Same Properties	\$ 242,447	\$ 241,513	\$ 934	%
Rental Non-Same Properties	75,800	68,019	7,781	11
Total rental	318,247	309,532	8,715	3
Tenant recoveries Same Properties	78,829	79,573	(744)	(1)
Tenant recoveries Non-Same Properties	20,177	15,697	4,480	29
Total tenant recoveries	99,006	95,270	3,736	4
Other income Same Properties	337	69	268	388
Other income Non-Same Properties	14,313	4,109	10,204	248
Total other income	14,650	4,178	10,472	251
Total revenues Same Properties	321,613	321,155	458	
Total revenues Non-Same Properties	110,290	87,825	22,465	26
Total revenues	431,903	408,980	22,923	6
Expenses:				
Rental operations Same Properties	94,360	92,108	2,252	2
Rental operations Non-Same Properties	33,524	25,906	7,618	29
Total rental operations	127,884	118,014	9,870	8
Net operating income:				
Net operating income Same Properties	227,253	229,047	(1,794)	(1)
Net operating income Non-Same Properties	76,766	61,919	14,847	24
Total net operating income	304,019	290,966	13,053	4
Other expenses:				
General and administrative	35,152	30,528	4,624	15
Interest	51,243	48,621	2,622	5
Depreciation and amortization	140,778	113,326	27,452	24
Loss on early extinguishment of debt	2,225	6,485	(4,260)	(66)
	229,398	198,960	30,438	15
Income from continuing operations	\$ 74,621	\$ 92,006	\$ (17,385)	(19%)

Rental revenues

Total rental revenues for the nine months ended September 30, 2012, increased by \$8.7 million, or 3%, to \$318.2 million, compared to \$309.5 million for the nine months ended September 30, 2011. The increase was due to rental revenues from our Non-Same Properties, including nine development and redevelopment projects that were completed and delivered after January 1, 2011, and six operating properties that were

acquired after January 1, 2011.

Table of Contents

Tenant recoveries

Total tenant recoveries for the nine months ended September 30, 2012, increased by \$3.7 million, or 4%, to \$99.0 million, compared to \$95.3 million for the nine months ended September 30, 2011. Same Properties tenant recoveries decreased by \$0.8 million while Same Properties rental operating expenses increased by \$2.3 million, primarily due to some vacancies and an increase in certain non-recoverable operating expenses from our Same Properties. The increase of approximately \$4.5 million from our Non-Same Properties tenant recoveries was primarily due to nine development and redevelopment projects that were completed and delivered after January 1, 2011, and six operating properties that were acquired after January 1, 2011. As of September 30, 2012, approximately 94% of our leases (on a rentable square footage basis) were triple net leases, requiring 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.

Other income

Other income for the nine months ended September 30, 2012 and 2011, of \$14.7 million and \$4.2 million, respectively, represents construction management fees, interest, and investment income. The increase of approximately \$10.5 million is primarily due to an increase in investment income, including a realized gain of \$5.8 million on an equity investment primarily related to one non-tenant life science entity, plus an increase in interest income for the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011.

Rental operating expenses

Total rental operating expenses for the nine months ended September 30, 2012, increased by \$9.9 million, or 8%, to \$127.9 million, compared to \$118.0 million for the nine months ended September 30, 2011. Approximately \$7.6 million of the increase was due to an increase in rental operating expenses from our Non-Same Properties, primarily related to nine development and redevelopment projects that were completed and delivered after January 1, 2011, and six operating properties that were acquired after January 1, 2011. The remaining \$2.3 million increase was due to increases in rental operating expenses from our Same Properties. The increase in rental operating expenses at our Same Properties was primarily due to normal year-over-year increases in repairs and maintenance expenses.

General and administrative expenses

General and administrative expenses for the nine months ended September 30, 2012, increased by \$4.7 million, or 15%, to \$35.2 million, compared to \$30.5 million for the nine months ended September 30, 2011. The increase was primarily due to costs associated with the Amended and Restated Employment Agreement with our Chief Executive Officer to provide the Company with a performance-based compensation program. Additionally, the increase in general and administrative expenses was related to an increase in the number of employees related to the growth in both the depth and breadth of our operations in multiple markets. Since September 30, 2011, the number of our employees has increased by approximately 11%. As a percentage of total revenues, general and administrative expenses were 8.1% and 7.5%, respectively, for the nine months ended September 30, 2012 and 2011.

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Interest expense

Interest expense for the nine months ended September 30, 2012, increased by \$2.6 million, or 5%, to \$51.2 million, compared to \$48.6 million for the nine months ended September 30, 2011, detailed as follows (in thousands):

Component	Nine Months Ended September 30,			Change
	2012	2011		
Secured notes payable	\$ 30,393	\$ 35,274	\$	(4,881)
Unsecured senior convertible notes	239	8,303		(8,064)
Unsecured senior notes payable	14,921			14,921
Unsecured senior line of credit	13,003	21,121		(8,118)
Unsecured senior bank term loan	15,412	5,838		9,574
Interest rate swap	17,627	16,121		1,506
Amortization of loan fees and other interest	7,502	6,869		633
Capitalized interest	(47,854)	(44,905)		(2,949)
Total interest expense	\$ 51,243	\$ 48,621	\$	2,622

Table of Contents

Interest expense increased primarily due to the issuance of our unsecured senior notes payable and an increase in the balance outstanding on our unsecured senior bank term loans since January 1, 2011. This increase was partially offset by repayments of seven secured notes payable approximating \$55.7 million and repurchases of all our 3.70% Unsecured Senior Convertible Notes aggregating \$295.1 million since January 1, 2011. Interest expense related to our unsecured senior line of credit also decreased, primarily due to a lower average balance outstanding during the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011, and a decrease in effective interest rate from 2.52% as of September 30, 2011 to 1.43% as of September 30, 2012. We have entered into certain interest rate swap agreements to hedge a portion of our exposure primarily related to variable interest rates associated with our unsecured senior line of credit and unsecured senior bank term loans (see Liquidity and Capital Resources - Contractual Obligations Interest Rate Swap Agreements). Capitalized interest for the nine months ended September 30, 2012, increased by \$3.0 million, or 7% to \$47.9 million, compared to \$44.9 million for the nine months ended September 30, 2011, primarily due to increased development and redevelopment activities partially offset by deliveries made since January 1, 2011, and a reduction of our overall interest rates during the nine months ended September 30, 2012, due to our refinancing activities.

Depreciation and amortization

Depreciation and amortization for the nine months ended September 30, 2012, increased by \$27.5 million, or 24%, to \$140.8 million, compared to \$113.3 million for the nine months ended September 30, 2011. The increase resulted primarily from increased depreciation related to building improvements and other assets, including nine development and redevelopment projects that were completed and delivered after January 1, 2011, and six operating properties that were acquired after January 1, 2011. Depreciation also increased as a result of depreciation adjustments necessary to reduce the carrying amount of buildings and improvements to zero in connection with planned redevelopments.

Loss on early extinguishment of debt

During the nine months ended September 30, 2012, we recognized a loss on early extinguishment of debt of approximately \$2.2 million, including \$1.6 million related to the write-off of unamortized loan fees upon modification of our unsecured senior line of credit and \$0.6 million related to the write-off of unamortized loan fees resulting from the early repayment of \$250.0 million of our 2012 Unsecured Senior Bank Term Loan. During the nine months ended September 30, 2011, we recognized losses on early extinguishment of debt of approximately \$6.5 million, composed of an aggregate loss of \$5.2 million related to the repurchases, in privately negotiated transactions, of approximately \$217.1 million principal amount of our 3.70% Unsecured Convertible Notes for an aggregate cash price of approximately \$221.4 million, and a \$1.3 million loss related to the write-off of unamortized loan fees upon the early repayment of \$500 million of our 2012 Unsecured Term Loan.

Income from discontinued operations, net

Income from discontinued operations, net, of \$0.2 million for the 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, of \$7.9 million for the 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, two properties held for sale as of September 30, 2011, and the results of operations of six properties sold during the nine months ended September 30, 2012.

Impairment of real estate

In September 2012, four properties aggregating 504,130 rentable square feet met the classification requirements for held for sale. During the nine 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

Liquidity and capital resources

Overview

We expect to meet certain long-term liquidity requirements, such as requirements for property acquisitions, development, redevelopment, other construction projects, capital improvements, tenant improvements, leasing costs, non-incremental revenue generating expenditures, and scheduled debt maturities, through net cash provided by operating activities, periodic asset sales, and long-term secured and unsecured indebtedness, including borrowings under our unsecured senior line of credit, unsecured senior bank term loans, and the issuance of additional debt and/or equity securities.

We expect to continue meeting our short-term liquidity and capital requirements, as further detailed in this section, generally through our working capital and net cash provided by operating activities. We believe that the net cash provided by operating activities will continue to be sufficient to enable us to make the distributions necessary to continue qualifying as a REIT.

Over the next several years, our balance sheet, capital structure, and liquidity objectives are as follows:

- Reduce leverage as a percentage of total gross assets and improve our ratio of debt to earnings before interest, taxes, depreciation, and amortization;
- Maintain diverse sources of capital, including sources from net cash flows from operating activities, unsecured debt, secured debt, selective asset sales, joint ventures, preferred stock, and common stock;
- Manage the amount of debt maturing in a single year;
- Refinance outstanding medium-term variable rate bank debt with longer-term fixed rate debt;
- Mitigate unhedged variable rate debt exposure by transitioning our balance sheet debt from short-term and medium-term variable rate bank debt to long-term unsecured fixed rate debt and utilizing interest rate swap agreements in the interim period during this transition of debt;
- Maintain adequate liquidity from net cash provided by operating activities, cash and cash equivalents, and available borrowing capacity under our unsecured senior line of credit;
- Maintain available borrowing capacity under our unsecured senior line of credit in excess of 50% of the total commitments of \$1.5 billion, except temporarily as necessary;
- Fund preferred stock and common stock dividends from net cash provided by operating activities;
- Retain positive cash flows from operating activities after payment of dividends for reinvestment in acquisitions and/or development and redevelopment projects; and

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- Reduce our non-income-producing assets as a percentage of our gross investment in real estate.

Cash flows

We report and analyze our cash flows based on operating activities, investing activities, and financing activities. The following table summarizes changes in the Company's cash flows for the nine months ended September 30, 2012 and 2011 (in thousands):

	Nine Months Ended September 30,		
	2012	2011	Change
Net cash provided by operating activities	\$ 227,490	\$ 179,972	\$ 47,518
Net cash used in investing activities	\$ (408,395)	\$ (595,502)	\$ 187,107
Net cash provided by financing activities	\$ 196,204	\$ 397,329	\$ (201,125)

Operating activities

Cash flows provided by operating activities consisted of the following amounts (in thousands):

	Nine Months Ended September 30,		
	2012	2011	Change
Net cash provided by operating activities	\$ 227,490	\$ 179,972	\$ 47,518
Changes in assets and liabilities	(12,355)	34,830	(47,185)
Net cash provided by operating activities before changes in assets and liabilities	\$ 215,135	\$ 214,802	\$ 333

Table of Contents

Net cash provided by operating activities for the nine months ended September 30, 2012, increased by \$47.5 million, or 26%, to \$227.5 million, compared to \$180.0 million for the nine months ended September 30, 2011. The increase resulted primarily from changes in assets and liabilities for the nine months ended September 30, 2012, compared to the same period in 2011. Excluding the increase in operating cash flow from changes in operating assets and liabilities, cash flow from operations increased by \$0.3 million, to \$215.1 million, compared to \$214.8 million for the nine months ended September 30, 2011, primarily due to the timing of acquisitions and dispositions and the start of and completion of development and redevelopment properties since January 1, 2011. We believe our cash flows from operating activities provide a stable source of cash to fund operating expenses. 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. Our average occupancy rate for operating properties as of September 30, 2012, and December 31 of each year from 2000 to 2011 was approximately 94.9 %. Our average occupancy rate for operating and redevelopment properties as of September 30, 2012, and December 31 of each year from 2000 to 2011 was approximately 88.7%.

Investing activities

Net cash used in investing activities for the nine months ended September 30, 2012, was \$408.4 million, compared to \$595.5 million for the nine months ended September 30, 2011. This change consisted of the following amounts (in thousands):

	Nine Months Ended September 30,		
	2012	2011	Change
Proceeds from sale of property	\$ 36,179	\$ 17,339	\$ 18,840
Additions to properties	(406,066)	(293,688)	(112,378)
Purchase of properties	(42,171)	(307,839)	265,668
Other	3,663	(11,314)	14,977
Net cash used in investing activities	\$ (408,395)	\$ (595,502)	\$ 187,107

The change in net cash used in investing activities for the nine months ended September 30, 2012, is primarily due to a lower investment amount in property acquisitions in the nine months ended September 30, 2012, as compared to the nine months ended September 30, 2011, offset by increased capital expenditures related to our development and redevelopment projects during the nine months ended September 30, 2012.

Real estate asset sales

See discussion in Sources of Capital Real Estate Asset Sales.

Acquisitions

In April 2012, we acquired 3013/3033 Science Park Road located in the San Diego market, which consists of two life science laboratory buildings aggregating 176,500 rentable square feet, for approximately \$13.7 million. The property was 100% leased on a short-term basis, and thereafter, we expect to redevelop approximately 98,000 rentable square feet. The remaining square footage will be classified as future

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developable square feet once the existing client tenant vacates. We expect to provide an estimate of our initial stabilized yields in the future upon commencement of development/redevelopment activity. Initial Stabilized yield is calculated as the quotient of net operating income and our investment in the property at stabilization (Initial Stabilized Yield).

Development and redevelopment

As of September 30, 2012, 96% of our overall leases contained annual rent escalations that were either fixed or based on a consumer price index or another index. Our Initial Stabilized Yield on a cash basis reflects cash rents upon stabilization and does not reflect contractual rent escalations beyond the stabilization date. We expect, on average, our contractual cash rents related to our value-added projects to increase over time.

During the three and nine months ended September 30, 2012, we executed leases aggregating 266,000 and 829,000 rentable square feet, respectively, related to our development and redevelopment projects.

In the fourth quarter of 2012, we expect to commence a ground-up development of a multi-tenant laboratory building with 419,806 rentable square feet at 430 East 29th Street, the West Tower of the Alexandria Center for Life Science New York City. We expect to provide an estimate of our Initial Stabilized Yields next quarter upon commencement of ground-up development.

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Table of Contents

From November 2011 to September 2012, we completed the redevelopment of 279,138 rentable square feet, including the completion of 189,562 rentable square feet in September 2012, at 10300 Campus Point Drive, located in the San Diego market. This property is a multi-tenant campus with 449,759 rentable square feet that is 96% leased to (1) Eli Lilly and Company, (2) The Regents of the University of California, (3) Celgene Corporation, and (4) Covance Inc. The Initial Stabilized Yield on a cash and GAAP basis for the 279,138 rentable square feet redevelopment project was approximately 7.9% and 7.7%, respectively.

In September 2012, we completed the development of 4755 Nexus Center Drive, located in the San Diego market, a single-tenant building with 45,255 rentable square feet that is 100% leased to Optimizer Pharmaceuticals, Inc. The Initial Stabilized Yield on a cash and GAAP basis for this project was approximately 6.8% and 7.5%, respectively.

In June 2012, we completed the redevelopment of 3530/3550 John Hopkins Court, located in the San Diego market, a multi-tenant campus with 98,320 rentable square feet that is 100% leased to (1) Genomics Institute of the Novartis Research Foundation, a non-profit research institute, and (2) a leading industrial biotechnology company. The Initial Stabilized Yield on a cash and GAAP basis for this project was approximately 8.9% and 9.1%, respectively.

In April 2012, we completed the development of a building located in the Canadian market with 26,426 rentable square feet that is 100% leased to GlaxoSmithKline plc. The Initial Stabilized Yield on a cash and GAAP basis for this project was approximately 7.7% and 8.3%, respectively.

In April 2012, we commenced ground-up development of 360 Longwood Avenue, located in the Longwood Medical Area of the Greater Boston market, our unconsolidated joint venture development project with 414,000 rentable square feet that is 37% pre-leased to the Dana-Farber Cancer Institute, Inc. Dana-Farber Cancer Institute, Inc. also has an option to lease an additional two floors of approximately 99,000 rentable square feet, or an additional 24% of the total rentable square feet of the project. We expect to achieve an unlevered Initial Stabilized Yield on a cash and GAAP basis in a range from 8.1% to 8.5% and 8.7% to 9.1%, respectively. Funding for this project is provided primarily by capital from our joint venture partner and a \$213.2 million non-recourse secured construction loan. Additionally, our share of the future funding is expected to be less than the \$22.3 million distribution we received in March 2012, upon admittance of the new partner and refinancing of the project.

In January 2012, we commenced a ground-up development of a single-tenant building with 170,618 rentable square feet at 259 East Grand Avenue located in the San Francisco Bay market that is 100% pre-leased to Onyx Pharmaceuticals Inc. We expect to achieve an Initial Stabilized Yield on both a cash and GAAP basis for this property in a range from 7.8% to 8.2%. Funding for this project will be provided primarily by the \$55.0 million secured construction loan we closed in June 2012.

Capital expenditures and tenant improvements

See discussion in Uses of Capital Summary of Capital Expenditures.

Financing activities

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Net cash flows provided by financing activities for the nine months ended September 30, 2012, decreased by \$201.1 million, to \$196.2 million, compared to \$397.3 million for the nine months ended September 30, 2011. This decrease consisted of the following amounts (in thousands):

	Nine Months Ended September 30,		
	2012	2011	Change
Borrowings from secured notes payable	\$ 2,874	\$	\$ 2,874
Repayments of borrowings from secured notes payable	(8,125)	(30,181)	22,056
Proceeds from issuance of unsecured senior notes payable	544,649		544,649
Repurchases of unsecured senior convertible notes	(84,801)	(221,439)	136,638
Principal borrowings from unsecured senior line of credit	623,147	1,990,317	(1,367,170)
Repayment of unsecured senior line of credit	(580,147)	(1,174,317)	594,170
Repayment of unsecured senior bank term loan	(250,000)	(500,000)	250,000
Redemption of Series C Preferred Stock	(129,638)		(129,638)
Proceeds from issuance of Series E Preferred Stock	124,868		124,868
Proceeds from issuance of common stock	98,443	451,539	(353,096)
Dividend payments	(114,091)	(99,055)	(15,036)
Other	(30,975)	(19,535)	(11,440)
Net cash provided by financing activities	\$ 196,204	\$ 397,329	\$ (201,125)

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Table of Contents

Closed secured construction loan for development project in San Francisco Bay market

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.

4.60% unsecured senior notes payable offering

In February 2012, we completed the issuance of our 4.60% unsecured senior notes (4.60% Unsecured Senior Notes) due in February 2022. Net proceeds of approximately \$544.6 million were used to repay certain outstanding variable rate bank debt, including the entire \$250.0 million of our 2012 Unsecured Senior Bank Term Loan, and approximately \$294.6 million of outstanding borrowings under our unsecured senior line of credit. In connection with the retirement of our 2012 Unsecured Senior Bank Term Loan, we recognized a loss on early extinguishment of debt of approximately \$0.6 million related to the write-off of unamortized loan fees for the three months ended March 31, 2012.

The requirements of, and our actual performance with respect to, the key financial covenants under our unsecured senior notes payable as of September 30, 2012, are as follows:

Covenant Ratios (1)	Requirement	Actual (2)
Total Debt to Total Assets	Less than or equal to 60%	39%
Consolidated EBITDA to interest expense	Greater than or equal to 1.5x	5.9x
Unencumbered Total Asset Value to Unsecured Debt	Greater than or equal to 150%	259%
Secured Debt to Total Assets	Less than or equal to 40%	9%

- (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.
- (2) Actual covenants are calculated pursuant to the specific terms of the Indenture.

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 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.

Debt repayments/amendments

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The following table outlines certain debt repayments and amendments for the nine months ended September 30, 2012 (in thousands):

	Nine Months Ended	
	September 30, 2012	
	Debt Repayments	Loss on Early Extinguishment of Debt
Repurchase of 3.70% Unsecured Senior Convertible Notes	\$ 84,801	\$
Repayment of 2012 Unsecured Senior Bank Term Loan	250,000	623
Amendment of \$1.5 billion unsecured senior line of credit		1,602
	\$ 334,801	\$ 2,225

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Table of Contents

In February 2012, we repaid the entire \$250.0 million outstanding balance on our 2012 Unsecured Senior Bank Term Loan. In connection with the retirement of our 2012 Unsecured Senior Bank Term Loan, we recognized a loss on early extinguishment of debt of approximately \$0.6 million related to the write-off of unamortized loan fees for the three months ended March 31, 2012.

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 stated maturity date twice by an additional six months after each exercise. Borrowings under the unsecured senior line of credit will bear interest at LIBOR or the base rate specified in the amended unsecured senior line of credit agreement, plus in either case a specified margin (the Applicable Margin). The Applicable Margin for LIBOR borrowings under the unsecured senior line of credit was 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 for the three months ended June 30, 2012.

The requirements of, and our actual performance with respect to, the key financial covenants under our unsecured senior line of credit as of September 30, 2012, are as follows:

Covenant Ratios (1)	Requirement	Actual
Leverage Ratio	Less than or equal to 60.0%	36%
Fixed Charge Coverage Ratio	Greater than or equal to 1.50x	2.5x
Secured Debt Ratio	Less than or equal to 40.0%	8%
Unsecured Leverage Ratio	Less than or equal to 60.0%	40%
Unsecured Interest Coverage Ratio	Greater than or equal to 1.75x	7.8x

- (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 is filed as an exhibit to our Quarterly Report on Form 10-Q filed with the SEC on August 8, 2012.

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.

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Retirement of 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. In aggregate, we repurchased approximately \$84.8 million in principal amount of the notes and we did not recognize a gain or loss as a result during the six months ended June 30, 2012.

6.45% series E preferred stock offering

In March 2012, we completed a public offering of 5,200,000 shares of our series E 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 series C preferred stock (*Series C Preferred Stock*).

Table of Contents*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

During the nine months ended September 30, 2012 and 2011, we paid the following dividends (in thousands):

	Nine Months Ended September 30,			
	2012	2011		Change
Common stock dividends	\$ 92,743	\$ 77,787	\$	14,956
Series C Preferred Stock dividends	5,428	8,143		(2,715)
Series D Preferred Stock dividends	13,125	13,125		
Series E Preferred Stock dividends	2,795			2,795
	\$ 114,091	\$ 99,055	\$	15,036

The increase in dividends paid on our common stock is due to an increase in the related dividends to \$1.49 per common share for the nine months ended September 30, 2012, from \$1.35 per common share for the nine months ended September 30, 2011. The increase was also due to an increase in common stock outstanding. Total common stock outstanding as of December 31, 2011, was 61,560,472 shares, compared to 54,966,925 shares as of December 31, 2010. Total common stock outstanding as of September 30, 2012, was 63,161,177 shares, compared to 61,463,839 shares as of September 30, 2011.

Table of Contents**Sources and uses of capital**

We expect that our principal liquidity needs for the year ended December 31, 2012, will be satisfied by the following multiple sources of capital as shown in the table below. There can be no assurance that our sources and uses of capital will not be materially higher or lower than these expectations. Our liquidity available under our unsecured senior line of credit and from cash equivalents was approximately \$1.2 billion as of September 30, 2012.

Sources and Uses of Capital for the Year Ended December 31, 2012 (in millions)	Completed	Reported on	Total	Reported on
		October 26, 2012 Projected		July 30, 2012 Total
Sources of capital:				
Net cash provided by operating activities less dividends	\$ 53	\$ 28	\$ 81 (1)	\$ 81
Asset and land sales	75	76 - 81 (2)	151 - 156	112
Unsecured senior notes payable	550		550	550
Borrowings on secured construction financing	2	22	24	24
Series E Preferred Stock issuance	125		125	125
Issuances under at the market common stock offering program	98	(3)	98	40
Debt, equity, and joint venture capital	51 (4)	57 - 84 (4)	108 - 135	236
Total sources of capital	\$ 954	\$ 183 - 215	\$ 1,137 - 1,169	\$ 1,168
Uses of capital:				
Development, redevelopment, and construction	\$ 429	\$ 167	\$ 596 (5)	\$ 646
Notes receivable from asset and land sales	6	13 - 45	19 - 51	
Acquisitions	46		46	46
Secured debt repayments	8	3	11 (6)	11
2012 Unsecured Senior Bank Term Loan repayment	250		250	250
3.70% Unsecured Senior Convertible Notes repurchase	85		85	85
Series C Preferred Stock redemption	130		130	130
Total uses of capital	\$ 954	\$ 183 - 215	\$ 1,137 - 1,169	\$ 1,168

- (1) See tables of Key Net Operating Income Projection Assumptions and projections table in the Net Operating Income, Net Income, and FFO for the Three Months Ended December 31, 2012 section on page 44 and 45.
- (2) Represents an estimate of sources of capital from pending asset and land sales. As noted in Real Estate Asset Sales on page 70, we have other incremental dispositions in process aggregating \$84.5 million, a portion of which may close during the three months ended December 31, 2012.
- (3) See Debt, equity, and joint venture capital.
- (4) Represents an estimate of sources of capital primarily consisting of borrowings under our unsecured senior line of credit and proceeds from our at the market common stock offering program.
- (5) See Investment to Complete columns in the Development and Redevelopment Projects in North America table on page 51 for additional details underlying this estimate. The decrease of approximately \$50 million from the approximately \$646 million previously reported on July 30, 2012, is primarily attributable to the timing of the spending moving from the three months ended December 31, 2012, to the year ended December 31, 2013.
- (6) Based upon contractually scheduled payments or maturity dates.

The key assumptions behind the sources and uses of capital in the table above are a favorable capital market environment and performance of our core operations in areas such as delivery of current and future development and redevelopment projects, leasing activity, and renewals. Our expected sources and uses of capital are subject to a number of variables and uncertainties, including those discussed under the Forward-looking statements section of Part I, the Risk Factors section of Item 1A, and the Management's Discussion and Analysis of Financial Condition and Results of Operations section under Item 7, of our annual report on Form 10-K for the year ended December 31, 2011. We expect to update our forecast of sources and uses of capital on a quarterly basis.

Table of Contents

Sources of capital

Unsecured senior line of credit

We use our unsecured senior line of credit to fund working capital, construction activities, and, from time to time, acquisition of properties. As of September 30, 2012, we had \$1.1 billion available under our \$1.5 billion unsecured senior line of credit.

Cash and cash equivalents

As of September 30, 2012, we had approximately \$94.9 million of cash and cash equivalents. We expect existing cash and cash equivalents, and cash flows from operations, to continue to be sufficient to fund our operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends, scheduled debt repayments, and material capital expenditures, for at least the next 12 months, and thereafter for the foreseeable future.

Restricted cash

Restricted cash consisted of the following as of September 30, 2012, and December 31, 2011 (in thousands):

	September 30, 2012	December 31, 2011
Funds held in trust under the terms of certain secured notes payable	\$ 32,575	\$ 12,724
Funds held in escrow related to construction projects	5,651	5,648
Other restricted funds	6,637	4,960
Total	\$ 44,863	\$ 23,332

The funds held in escrow related to construction projects will be used to pay for certain construction costs.

Table of Contents*Real estate asset sales*

In September 2012, four properties aggregating 504,130 rentable square feet met the classification requirements for held for sale. The current buyers are expected to reposition these assets and/or incur significant investments to re-tenant the properties. 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. The following table represents the completed and projected real estate asset sales as of September 30, 2012 (in thousands, except per square foot amounts):

Description	Location	Date of Sale	Rentable/ Developable Square Feet	Sales Price per SF	Occupancy at Date of Sale	Annualized GAAP NOI (1)	Sales Price (2)	Gain on Sale
<i>Land parcels and assets with a previous operating component:</i>								
1201/1209 Mercer Street (3)	Seattle	September 2012	76,029	\$ 73	0%	\$ 45	\$ 5,570	\$ 54
801 Dexter Avenue North (3)	Seattle	August 2012	120,000	\$ 72	0%	\$ (96)	8,600	\$ 55
Land parcel	Greater Boston	March 2012	(4)	\$ 275	N/A	N/A	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	100%	\$ 2,193	19,750	(5)
155 Fortune Boulevard (6)	Route 495/Worcester	July 2012	36,000	\$ 222	100%	\$ 804	8,000	\$ 1,350
5110 Campus Drive (6)	Pennsylvania	May 2012	21,000	\$ 86	71%	\$ 77	1,800	\$ 2
Sales of income-producing properties							29,550	(7)
<i>Completed sales subtotal</i>							75,080	
Sales in process	Various	Pending	261,000	\$ 130	N/A	\$ (470)	34,000	(8) TBD
Subtotal							109,080	
<i>Other incremental dispositions</i>								
Sales in process (9)	Various	Pending	504,130	\$ 168	N/A	\$ 12,798	84,500	TBD
Total projected dispositions							\$ 193,580	

(1) Annualized using actual year-to-date results as of the quarter end prior to date of sale or September 30, 2012.

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

(3) Properties sold to residential developers.

(4) 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.

(5) 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.

(6) Properties were sold to client tenants.

(7) The weighted average capitalization rate (annualized GAAP NOI divided by sales price) related to sales of income-producing assets in the nine months ended September 30, 2012, was 10.4%.

(8) Includes a \$13.3 million amortizing secured note receivable due in 2014.

(9) Includes four properties, which the buyers expect to renovate. During the three months ended September 30, 2012, we recognized an aggregate charge for impairment of real estate of approximately \$9.8 million to adjust the carrying values of the four properties to their fair value, less costs to sell. We may receive a note receivable in connection with sale of one property. One sale may close during the three months ended December 31, 2012.

Secured construction loans

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 LIBOR or 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.

At the market common stock offering program

See discussion in Cash Flows - Financing Activities - At the Market Common Stock Offering Program.

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Table of Contents

Uses of capital

Summary of capital expenditures

The following table summarizes the components of our total capital expenditures for the nine months ended September 30, 2012, which includes interest, property taxes, insurance, payroll costs, and other indirect project costs (in thousands):

	Nine Months
	Ended September 30, 2012
Construction spending actual	
Development projects in North America	\$ 135,914
Redevelopment projects in North America	145,042
Preconstruction	57,418
Generic infrastructure/building improvement projects in North America (1)	73,387
Development and redevelopment projects in Asia	17,067
Total construction spending (2)	\$ 428,828

The following table summarizes the components of our total projected capital expenditures for the three months ended December 31, 2012, and the period thereafter. Expenditures include indirect project costs, including interest, property taxes, insurance, and payroll costs (in thousands):

	Three Months Ended	Year Ended	
	December 31, 2012	December 31, 2013	Thereafter
Construction spending projection			
Active development projects in North America	\$ 33,344	\$ 122,582	\$ 36,971
Active redevelopment projects in North America	26,125	59,720	136
Preconstruction	26,609	84,475	TBD (3)
Generic infrastructure/building improvement projects in North America	43,484	67,872	TBD (3)
Future projected construction projects (4)	27,612	250,000 - 300,000	TBD (3)
Development and redevelopment projects in Asia	10,173	30,258	17,060
Total construction spending (2)	\$ 167,347	\$ 614,907 - 664,907	\$ 54,167

- (1) Includes revenue-enhancing projects and amounts shown in the table on the following page related to non-incremental revenue-enhancing capital expenditures.
- (2) Amounts include indirect project costs, including interest, property taxes, insurance, and payroll costs.
- (3) Estimated spending beyond 2013 related to preconstruction, generic infrastructure improvements, major capital spending, and projected construction projects will be determined at a future date and is contingent upon many factors.
- (4) Includes future ground-up development related to the West Tower of the Alexandria Center for Life Science New York City. Also, includes future redevelopment projects in North America at 1616 Eastlake Avenue, 2625/2627/2631 Hanover Street, 3033 Science Park Road, 4757 Nexus Center Drive, 5 Research Court, and 6175 Nancy Ridge Drive.

Table of Contents

The table below shows the average per square foot property-related non-revenue-enhancing capital expenditures, tenant improvements, and leasing costs (excluding capital expenditures and tenant improvements that are recoverable from client tenants, revenue-enhancing, or related to properties that have undergone redevelopment) for the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30,	
	2012	2011
Non-incremental revenue-enhancing capital expenditures (1):		
Major capital expenditures	\$ 182,247	\$ 461,268
Other building improvements	\$ 1,556,346	\$ 1,395,256
Square feet in asset base	13,962,954	13,251,608
Per square foot:		
Major capital expenditures	\$ 0.01	\$ 0.03
Other building improvements	\$ 0.11	\$ 0.11
Tenant improvements and leasing costs:		
<i>Re-tenanted space (2)</i>		
Tenant improvements and leasing costs	\$ 2,576,059	\$ 1,351,234
Re-tenanted square feet	268,083	299,430
Per square foot	\$ 9.61	\$ 4.51
<i>Renewal space</i>		
Tenant improvements and leasing costs	\$ 3,434,682	\$ 3,166,478
Renewal square feet	892,966	866,285
Per square foot	\$ 3.85	\$ 3.66

- (1) Major capital expenditures typically consist of significant improvements such as roof and HVAC systems replacements. Other building improvements exclude major capital expenditures.
- (2) Excludes space that has undergone redevelopment before re-tenanting.

We expect our future capital expenditures, tenant improvements, and leasing costs (excluding capital expenditures and tenant improvements that are recoverable from client tenants, revenue-enhancing, or related to properties that have undergone redevelopment) on a per square foot basis to be approximately in the amounts shown in the preceding table.

Capitalized interest for the nine months ended September 30, 2012 and 2011, of approximately \$47.9 million and \$44.9 million, respectively, is included in investments in real estate, net, as well as the table on the preceding page summarizing total capital expenditures. In addition, we capitalized payroll and other indirect project costs related to development, redevelopment, and construction projects, including projects in India and China, aggregating approximately \$9.4 million and \$12.2 million for the nine months ended September 30, 2012 and 2011, respectively. Such costs are also included in the Summary of Capital Expenditures section on the preceding page.

We capitalize interest cost as a cost of the project only during the period for which activities necessary to prepare an asset for its intended use are ongoing, provided that expenditures for the asset have been made and interest cost has been incurred. Indirect project costs, including personnel, construction administration, legal fees, and office costs that clearly relate to projects under construction, are capitalized during the period in which activities necessary to prepare the asset for its intended use take place. Additionally, should activities necessary to prepare an asset for its intended use cease, interest, taxes, insurance, and certain other direct project costs related to this asset would be expensed as incurred. When construction activities cease and the asset is ready for its intended use, the asset is transferred out of construction in progress and classified as rental properties, net. Additionally, if vertical aboveground construction is not initiated at completion of preconstruction activities, the land parcel will be classified as land held for future development. Expenditures for repairs and maintenance are expensed as incurred. Fluctuations in our development, redevelopment, and construction activities could result in significant changes to total expenses and net income. For

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example, had we experienced a 10% reduction in development, redevelopment, and construction activities, without a corresponding decrease in indirect project costs, including interest and payroll, total expenses would have increased by approximately \$5.7 million for the nine months ended September 30, 2012.

Table of Contents

We also capitalize and defer initial direct costs to originate leases with independent third parties related to evaluating a prospective lessee's financial condition, negotiating lease terms, preparing the lease agreement, and closing the lease transaction. Costs that we have capitalized and deferred relate to successful leasing transactions, result directly from and are essential to the lease transaction, and would not have been incurred had that leasing transaction not occurred. The initial direct costs capitalized and deferred also include the portion of our employees' total compensation and payroll-related fringe benefits directly related to time spent performing activities previously described and related to the respective lease that would not have been performed but for that lease. Total initial direct leasing costs capitalized during the nine months ended September 30, 2012 and 2011, were approximately \$28.8 million and \$36.5 million, respectively, of which approximately \$7.8 million and \$8.9 million, respectively, represented capitalized and deferred payroll costs directly related and essential to our leasing activities during such periods.

Retirement of 3.70% unsecured senior convertible notes

See discussion in Cash Flows - Financing Activities - Retirement of 3.70% Unsecured Senior Convertible Notes.

Acquisitions

Refer to Liquidity and Capital Resources - Acquisitions.

Dividends

We are required to distribute 90% of our REIT taxable income on an annual basis in order to continue to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to preferred and common stockholders from cash flow from operating activities. All such distributions are at the discretion of our Board of Directors. We may be required to use borrowings under our unsecured senior line of credit, if necessary, to meet REIT distribution requirements and maintain our REIT status. We consider market factors and our performance in addition to REIT requirements in determining distribution levels. Our forecasts of taxable income and distributions do not require significant increases in our annual common stock dividends on a per share basis in order to distribute at least 90% of our REIT taxable income for the period January 1, 2012, through December 31, 2012.

Contractual obligations and commitments

Contractual obligations as of September 30, 2012, consisted of the following (in thousands):

Total	2012	Payments by Period		Thereafter
		2013-2014	2015-2016	

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Secured notes payable (1) (2)	\$	719,873	\$	2,741	\$	357,884	\$	246,151	\$	113,097
Unsecured senior notes payable (1)		550,250				250				550,000
Unsecured senior line of credit (3)		413,000								413,000
2016 Unsecured Senior Bank Term Loan (4)		750,000						750,000		
2017 Unsecured Senior Bank Term Loan (5)		600,000								600,000
Estimated interest payments on fixed rate and hedged variable rate debt (6)		270,717		20,543		170,439		46,394		33,341
Estimated interest payments on variable rate debt (7)		67,457		616		22,905		43,070		866
Ground lease obligations		669,325		1,998		20,906		20,068		626,353
Other obligations		6,641		307		1,645		1,809		2,880
Total	\$	4,047,263	\$	26,205	\$	574,029	\$	1,107,492	\$	2,339,537

- (1) Amounts represent principal amounts due and exclude unamortized premiums/discounts reflected on the condensed consolidated balance sheets.
- (2) Amounts include noncontrolling interests' share of scheduled principal maturities of approximately \$21.3 million, of which approximately \$20.9 million matures in 2014. See discussion at Note 5, Secured and Unsecured Senior Debt for additional information.
- (3) The maturity date of our unsecured senior line of credit is April 30, 2017, assuming we exercise our sole right to extend the maturity date of April 30, 2016, twice by an additional six months.
- (4) Our 2016 unsecured senior bank term loan (2016 Unsecured Senior Bank Term Loan) matures June 30, 2016, assuming we exercise our sole right to extend the maturity date of June 30, 2015, by one year.
- (5) Our 2017 unsecured senior bank term loan (2017 Unsecured Senior Bank Term Loan) matures January 31, 2017, assuming we exercise our sole right to extend the maturity date of January 31, 2016, by one year.
- (6) Estimated interest payments on our fixed rate debt and hedged variable rate debt were based upon contractual interest rates, including the impact of interest rate swap agreements, interest payment dates, and scheduled maturity dates.
- (7) The interest payments on variable rate debt were based on the interest rates in effect as of September 30, 2012.

Table of Contents

Ground lease obligations

Ground lease obligations as of September 30, 2012, included leases for 25 of our properties and four land development parcels. Excluding one ground lease related to a future redevelopment, our lease obligations have remaining lease terms from 41 to 197 years, including extension options.

Commitments

In addition to the above, as of September 30, 2012, remaining aggregate costs under contract for the construction of properties undergoing development, redevelopment, and generic life science infrastructure improvements under the terms of leases approximated \$359.4 million. We expect payments for these obligations to occur over one to three years, subject to capital planning adjustments from time to time. We are also committed to funding approximately \$55.5 million for certain investments over the next six years.

A 100% owned subsidiary of the Company previously executed a ground lease, as ground lessee, for the development site for the West Tower of the Alexandria Center for Life Science New York City. That ground lease requires the construction of the West Tower building approximating 419,806 rentable square feet to commence no later than October 31, 2013. Commencement of construction of the second building includes, among other things, site preparation in order to accommodate a construction crane, erection of a construction crane, renewal of permits, and updating of the construction plans and specifications. The ground lease provides further that substantial completion of the second building occur by October 31, 2015, requiring satisfying conditions that include substantially completed construction in accordance with the plans and the issuance of either temporary or permanent certificates of occupancy for the core and shell. The ground lease also provides that by October 31, 2016, the ground lessee obtain a temporary or permanent certificate of occupancy for the core and shell of both the first building (which has occurred) and the second building. In each case, the target dates above are subject to force majeure, to contractual cure rights, to other legal remedies available to ground lessees generally, and to change for any reason by agreement between both parties under the ground lease. Lastly, if the above dates are not met, the ground lease provides contractual cure rights and the ground lease does not provide for the payment of additional rent, a late fee, or other monetary penalty.

Off-balance sheet arrangements

Our off-balance sheet arrangements consist of our investment in a real estate entity that is a variable interest entity for which we are not the primary beneficiary. We account for the real estate entity under the equity method. The debt held by the unconsolidated real estate entity is secured by the land parcel owned by the entity, and is non-recourse to us. See Notes 2 and 3 to our condensed consolidated financial statements appearing elsewhere in this quarterly report on Form 10-Q.

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Table of Contents

Interest rate swap agreements

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured senior line of credit and unsecured senior bank term loans. These agreements involve an exchange of fixed and variable rate interest payments without the exchange of the underlying principal amount (the notional amount). Interest received under all of our interest rate swap agreements is based on the one-month LIBOR rate. The net difference between the interest paid and the interest received is reflected as an adjustment to interest expense.

The following table summarizes our interest rate swap agreements as of September 30, 2012 (in thousands):

Transaction Date	Effective Date	Termination Date	Interest Pay Rate (1)	Fair Value as of		Notional Amount in Effect as of			
				September 30, 2012	September 30, 2012	September 30, 2012	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	\$ 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	

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- (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%.

We have entered into master derivative agreements with each counterparty. These master derivative agreements (all of which are adapted from the standard International Swaps and Derivatives Association, Inc. form) define certain terms between the Company and each counterparty to address and minimize certain risks associated with our interest rate swap agreements. In order to limit our risk of non-performance by an individual counterparty under our interest rate swap agreements, our interest rate swap agreements are spread among various counterparties. As of September 30, 2012, the largest aggregate notional amount in effect at any single point in time with an individual counterparty was \$375.0 million. If one or more of our counterparties fail to perform under our interest rate swap agreements, we may incur higher costs associated with our variable rate LIBOR-based debt than the interest costs we originally anticipated.

As of September 30, 2012, 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, with the offsetting adjustment reflected as unrealized losses in accumulated other comprehensive loss in total equity. Balances in accumulated other comprehensive loss are recognized in the period during which the forecasted hedge transactions affect earnings. We have not posted any collateral related to our interest rate swap agreements. For the nine months ended September 30, 2012 and 2011, approximately \$17.6 million and \$16.1 million, respectively, was reclassified from accumulated other comprehensive income to interest expense as an increase to interest expense. 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.

Other resources and liquidity requirements

Under our current shelf registration statement filed with the SEC, we may offer common stock, preferred stock, debt, and other securities. These securities may be issued from time to time at our discretion based on our needs and market conditions, including as necessary to balance our use of incremental debt capital.

We hold interests, together with certain third parties, in companies that we consolidate in our financial statements. These third parties may contribute equity into these entities primarily related to their share of funds for construction and financing-related activities.

Table of Contents

Exposure to environmental liabilities

In connection with the acquisition of all of our properties, we have obtained Phase I environmental assessments to ascertain the existence of any environmental liabilities or other issues. The Phase I environmental assessments of our properties have not revealed any environmental liabilities that we believe would have a material adverse effect on our financial condition or results of operations taken as a whole, nor are we aware of any material environmental liabilities that have occurred since the Phase I environmental assessments were completed. In addition, we carry a policy of pollution legal liability insurance covering exposure to certain environmental losses at substantially all of our properties.

Inflation

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 (generally ranging from 3.0% to 3.5%) or indexed based on a consumer price index or another index. Accordingly, we do not believe that our cash flow or earnings from real estate operations are subject to any significant risk from inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including borrowings related to our unsecured senior line of credit and unsecured senior bank term loans.

Non-GAAP measures

FFO and FFO, as adjusted

GAAP basis accounting for real estate assets utilizes historical cost accounting and assumes real estate values diminish over time. In an effort to overcome the difference between real estate values and historical cost accounting for real estate assets, the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT) established the measurement tool of FFO. Since its introduction, FFO has become a widely used non-GAAP financial measure among equity REITs. We believe that FFO is helpful to investors as an additional measure of the performance of an equity REIT. Moreover, we believe that FFO, as adjusted, is also helpful because it allows investors to compare our performance to the performance of other real estate companies between periods, and on a consistent basis, without having to account for differences caused by investment decisions, financing decisions, terms of securities, capital structures, and capital market transactions. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper and related implementation guidance (NAREIT White Paper). The NAREIT White Paper defines FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales and impairments of real estate, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Impairments of real estate relate to decreases in the estimated fair value of real estate due to changes in general market conditions and do not necessarily reflect the operating performance of the properties during the corresponding period. Impairments of real estate represent the non-cash write-down of assets when fair value over the recoverability period is less than the carrying value. We compute FFO, as adjusted, as FFO calculated in accordance with the NAREIT White Paper, plus losses from early extinguishment of debt and preferred stock redemption charges, less realized gain on equity investment primarily related to one non-tenant life science entity, and the amount of such items which are allocable to our unvested restricted stock awards. Our calculations of both FFO and FFO, as adjusted, may differ from those methodologies utilized by other equity REITs for similar performance measurements, and, accordingly, may not be comparable to other equity REITs. Neither FFO nor FFO, as adjusted, should be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of liquidity, nor are they indicative of the availability of funds for our cash needs, including funds available to make distributions.

Table of Contents

Adjusted funds from operations (AFFO)

AFFO is a non-GAAP financial measure that we use as a supplemental measure of our performance. We compute AFFO by adding to or deducting from FFO, as adjusted: (1) non-incremental revenue-enhancing capital expenditures, tenant improvements, and leasing commissions (excludes redevelopment expenditures); (2) effects of straight-line rent and straight-line rent on ground leases; (3) capitalized income from development projects; (4) amortization of acquired above and below market leases, loan fees, and debt premiums/discounts; (5) non-cash compensation expense; and (6) allocation of AFFO attributable to unvested restricted stock awards.

We believe that AFFO is a useful supplemental performance measure because it further adjusts to: (1) deduct certain expenditures that, although capitalized and included in depreciation expense, do not enhance the revenue or cash flows of our properties; (2) eliminate the effect of straight-lining our rental income and capitalizing income from development projects in order to reflect the actual amount of contractual rents due in the period presented; and (3) eliminate the effect of non-cash items that are not indicative of our core operations and do not actually reduce the amount of cash generated by our operations. We believe that eliminating the effect of non-cash charges related to stock-based compensation facilitates a comparison of our operations across periods and among other equity REITs without the variances caused by different valuation methodologies, the volatility of the expense (which depends on market forces outside our control), and the assumptions and the variety of award types that a company can use. We believe that AFFO provides useful information by excluding certain items that are not representative of our core operating results because such items are dependent upon historical costs or subject to judgmental valuation inputs and the timing of our decisions.

AFFO is not intended to represent cash flow for the period, and is only intended to provide an additional measure of performance. We believe that net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders is the most directly comparable GAAP financial measure to AFFO. We believe that AFFO is a widely recognized measure of the operations of equity REITs, and presenting AFFO will enable investors to assess our performance in comparison to other equity REITs. However, other equity REITs may use different methodologies for calculating AFFO and, accordingly, our AFFO may not be comparable to AFFO calculated by other equity REITs. AFFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

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Table of Contents

The following table presents a reconciliation of net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' basic, the most directly comparable financial measure calculated and presented in accordance with GAAP, to FFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' basic, FFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted, as adjusted, and AFFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted for the periods below (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' basic	\$ 10,646	\$ 24,662	\$ 46,630	\$ 75,013
Depreciation and amortization	48,173	39,990	143,933	117,060
Gain on sale of real estate	(1,562)		(1,564)	
Impairment of real estate	9,799	994	9,799	994
Gain on sale of land parcel		(46)	(1,864)	(46)
Amount attributable to noncontrolling interests/unvested stock awards:				
Net income	1,188	1,244	3,256	3,651
FFO	(1,148)	(1,580)	(3,452)	(4,877)
FFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' basic	67,096	65,264	196,738	191,795
Assumed conversion of 8.00% Unsecured Senior Convertible Notes	5	4	16	16
FFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted	67,101	65,268	196,754	191,811
Realized gain on equity investment primarily related to one non-tenant life science entity			(5,811)	
Loss on early extinguishment of debt		2,742	2,225	6,485
Preferred stock redemption charge			5,978	
Allocation to unvested restricted stock awards		(38)	(21)	(59)
FFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted, as adjusted	67,101	67,972	199,125	198,237
Non-incremental revenue-enhancing capital expenditures:				
Building improvements	(935)	(550)	(1,739)	(1,856)
Tenant improvements and leasing commissions	(1,844)	(2,119)	(6,011)	(4,517)
Straight-line rent	(5,225)	(7,647)	(19,216)	(17,239)
Straight-line rent on ground leases	201	1,143	2,814	3,483
Capitalized income from development projects	50	930	600	3,436
Amortization of acquired above and below market leases	(778)	(940)	(2,356)	(8,520)
Amortization of loan fees	2,470	2,144	7,327	6,749
Amortization of debt premiums/discounts	112	750	401	3,254
Stock compensation	3,845	3,344	10,412	8,449
Allocation to unvested restricted stock awards	19	31	67	61
AFFO attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' diluted	\$ 65,016	\$ 65,058	\$ 191,424	\$ 191,537
Weighted average shares of common stock outstanding attributable to Alexandria Real Estate Equities, Inc.'s common stockholders' basic	62,364,210	61,295,659	61,847,023	58,271,270
Effect of assumed conversion and dilutive securities:				
Assumed conversion of 8.00% Unsecured Senior Convertible Notes	6,087	6,047	6,087	6,047
Dilutive effect of stock options		8,310	448	13,475

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Weighted average shares of common stock outstanding attributable to Alexandria Real Estate Equities, Inc. s				
common stockholders	diluted	62,370,297	61,310,016	61,853,558
				58,290,792

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Table of Contents

The following table presents a reconciliation of net income per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders basic, the most directly comparable financial measure calculated and presented in accordance with GAAP, to FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders basic, FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders diluted, as adjusted, and AFFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders diluted for the periods below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders basic	\$ 0.17	\$ 0.40	\$ 0.75	\$ 1.29
Depreciation and amortization	0.78	0.65	2.34	2.00
Gain on sale of real estate	(0.03)		(0.03)	
Impairment of real estate	0.16	0.02	0.16	0.02
Gain on sale of land parcel			(0.03)	
Amount attributable to noncontrolling interests/unvested stock awards:				
Net income	0.02	0.02	0.05	0.06
FFO	(0.02)	(0.03)	(0.06)	(0.08)
FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders basic	1.08	1.06	3.18	3.29
Assumed conversion of 8.00% Unsecured Senior Convertible Notes				
FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders diluted	1.08	1.06	3.18	3.29
Realized gain on equity investment primarily related to one non-tenant life science entity			(0.09)	
Loss on early extinguishment of debt		0.05	0.03	0.11
Preferred stock redemption charge			0.10	
FFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders diluted, as adjusted	1.08	1.11	3.22	3.40
Non-incremental revenue-enhancing capital expenditures:				
Building improvements	(0.01)	(0.01)	(0.03)	(0.03)
Tenant improvements and leasing commissions	(0.03)	(0.03)	(0.10)	(0.08)
Straight-line rent	(0.08)	(0.12)	(0.31)	(0.30)
Straight-line rent on ground leases		0.02	0.05	0.06
Capitalized income from development projects		0.02	0.01	0.06
Amortization of acquired above and below market leases	(0.01)	(0.02)	(0.04)	(0.15)
Amortization of loan fees	0.03	0.03	0.11	0.13
Amortization of debt premiums/discounts		0.01	0.01	0.06
Stock compensation	0.06	0.05	0.17	0.14
AFFO per share attributable to Alexandria Real Estate Equities, Inc.'s common stockholders diluted	\$ 1.04	\$ 1.06	\$ 3.09	\$ 3.29

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Table of Contents

Adjusted EBITDA and adjusted EBITDA margins

EBITDA represents earnings before interest, taxes, depreciation, and amortization (EBITDA), a non-GAAP financial measure, and is used by us and others as a supplemental measure of performance. We use adjusted EBITDA (Adjusted EBITDA) and Adjusted EBITDA margins to assess the performance of our core operations, for financial and operational decision making, and as a supplemental or additional means of evaluating period-to-period comparisons on a consistent basis. Adjusted EBITDA also serves as a proxy for a component of a financial covenant under certain of our debt obligations. Adjusted EBITDA is calculated as EBITDA excluding net stock compensation expense, gains or losses on early extinguishment of debt, gains or losses on sales of land parcels, gains or losses on sales of real estate, and impairments of real estate. We believe Adjusted EBITDA and Adjusted EBITDA margins provide investors relevant and useful information because they permit investors to view income from our operations on an unleveraged basis before the effects of taxes, non-cash depreciation and amortization, net stock compensation expense, gains or losses on early extinguishment of debt, gains or losses on sales of land parcels, gains or losses on sales of real estate, and impairments of real estate. By excluding interest expense, EBITDA, Adjusted EBITDA, and Adjusted EBITDA margins allow investors to measure our performance independent of our capital structure and indebtedness and, therefore, allow for a more meaningful comparison of our performance to that of other companies, both in the real estate industry and in other industries. We believe that excluding non-cash charges related to stock-based compensation facilitates a comparison of our operations across periods and among other equity REITs without the variances caused by different valuation methodologies, the volatility of the expense (which depends on market forces outside our control), and the assumptions and the variety of award types that a company can use. We believe that adjusting for the effects of gains or losses on early extinguishment of debt, gains or losses on sales of land parcels, gains or losses on sales of real estate, and impairments of real estate provides useful information by excluding certain items that are not representative of our core operating results. These items are not related to core operations, not dependent upon historical costs, and not subject to judgmental valuation inputs and the timing of our decisions. EBITDA, Adjusted EBITDA, and Adjusted EBITDA margins have limitations as measures of our performance. EBITDA, Adjusted EBITDA, and Adjusted EBITDA margins do not reflect our historical cash expenditures or future cash requirements for capital expenditures or contractual commitments. While EBITDA, Adjusted EBITDA, and Adjusted EBITDA margins are relevant and widely used measures of performance, they do not represent net income or cash flows from operations as defined by GAAP, and they should not be considered as alternatives to those indicators in evaluating performance or liquidity. Further, our computation of EBITDA, Adjusted EBITDA, and Adjusted EBITDA margins may not be comparable to similar measures reported by other companies.

The following table reconciles net income, the most directly comparable financial measure calculated and presented in accordance with GAAP, to EBITDA, Adjusted EBITDA, and Adjusted EBITDA margins (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 18,305	\$ 32,995	\$ 76,721	\$ 99,931
Interest expense continuing operations	17,094	14,273	51,243	48,621
Interest expense discontinued operations				65
Depreciation and amortization continuing operations	47,176	38,747	140,778	113,326
Depreciation and amortization discontinued operations	997	1,243	3,155	3,734
EBITDA	83,572	87,258	271,897	265,677
Stock compensation expense	3,845	3,344	10,412	8,449
Loss on early extinguishment of debt		2,742	2,225	6,485
Gain on sale of land parcel		(46)	(1,864)	(46)
Gain on sale of real estate	(1,562)		(1,564)	
Impairment of real estate	9,799	994	9,799	994
Adjusted EBITDA	\$ 95,654	\$ 94,292	\$ 290,905	\$ 281,559
Total revenues	\$ 145,455	\$ 138,054	\$ 431,903	\$ 408,980

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Adjusted EBITDA margins	66%	68%	67%	69%
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Table of Contents

Fixed charge coverage ratio

The fixed charge coverage ratio is useful to investors as a supplemental measure of the Company's ability to satisfy fixed financing obligations and dividends on preferred stock. Cash interest is equal to interest expense calculated in accordance with GAAP, plus capitalized interest, less amortization of loan fees, and amortization of debt premiums/discounts. The fixed charge coverage ratio calculation below is not directly comparable to the computation of Consolidated Ratio of Earnings to Fixed Charges and Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends included in Exhibit 12.1 to our quarterly report on Form 10-Q, as of September 30, 2012.

The following table presents a reconciliation of interest expense, the most directly comparable GAAP financial measure to cash interest and fixed charges for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Adjusted EBITDA	\$ 95,654	\$ 94,292	\$ 290,905	\$ 281,559
Interest expense continuing operations	\$ 17,094	\$ 14,273	\$ 51,243	\$ 48,621
Interest expense discontinued operations				65
Add: capitalized interest	16,763	16,666	47,854	44,905
Less: amortization of loan fees	(2,470)	(2,144)	(7,327)	(6,749)
Less: amortization of debt premium/discounts	(112)	(750)	(401)	(3,254)
Cash interest	31,275	28,045	91,369	83,588
Dividends on preferred stock	6,471	7,089	20,857	21,267
Fixed charges	\$ 37,746	\$ 35,134	\$ 112,226	\$ 104,855
Fixed charge coverage ratio	2.5x	2.7x	2.6x	2.7x

Interest coverage ratio

The interest coverage ratio is the ratio of Adjusted EBITDA to cash interest. This ratio is useful to investors as an indicator of our ability to service our cash interest obligations.

The following table summarizes the calculation of the interest coverage ratio for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Adjusted EBITDA	\$ 95,654	\$ 94,292	\$ 290,905	\$ 281,559

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Interest expense	continuing operations	\$	17,094	\$	14,273	\$	51,243	\$	48,621
Interest expense	discontinued operations								65
Add: capitalized interest			16,763		16,666		47,854		44,905
Less: amortization of loan fees			(2,470)		(2,144)		(7,327)		(6,749)
Less: amortization of debt premium/discounts			(112)		(750)		(401)		(3,254)
Cash interest		\$	31,275	\$	28,045	\$	91,369	\$	83,588
Interest coverage ratio			3.1x		3.4x		3.2x		3.4x

Table of Contents

Net debt to adjusted EBITDA

Net debt to Adjusted EBITDA is a non-GAAP financial measure that we believe is useful to investors as a supplemental measure in evaluating our leverage. Net debt is equal to the sum of total debt less cash, cash equivalents, and restricted cash. See Adjusted EBITDA for further information on the calculation of Adjusted EBITDA.

The following table summarizes the calculation of net debt to Adjusted EBITDA as of September 30, 2012, and September 30, 2011 (dollars in thousands):

	September 30, 2012	September 30, 2011
Secured notes payable	\$ 719,350	\$ 760,882
Unsecured senior notes payable	549,794	84,484
Unsecured senior line of credit	413,000	814,000
Unsecured senior bank term loans	1,350,000	1,000,000
Less: cash and cash equivalents	(94,904)	(73,056)
Less: restricted cash	(44,863)	(27,929)
Net debt	\$ 2,892,377	\$ 2,558,381
Adjusted EBITDA (quarter annualized)	\$ 382,616	\$ 377,168
Net debt to Adjusted EBITDA	7.6x	6.8x

Net debt to gross assets (excluding cash and restricted cash)

Net debt to gross assets (excluding cash and restricted cash) is a non-GAAP financial measure that we believe is useful to investors as a supplemental measure in evaluating our leverage. Net debt is calculated as described in Net Debt to Adjusted EBITDA. Gross assets (excluding cash and restricted cash) are equal to total assets plus accumulated depreciation less cash, cash equivalents, and restricted cash.

The following table summarizes the calculation of net debt to gross assets (excluding cash and restricted cash) as of September 30, 2012, and September 30, 2011 (dollars in thousands):

	September 30, 2012	September 30, 2011
Net debt	\$ 2,892,377	\$ 2,558,381
Total assets	\$ 6,965,017	\$ 6,455,556
Add: accumulated depreciation	854,332	710,580
Less: cash and cash equivalents	(94,904)	(73,056)
Less: restricted cash	(44,863)	(27,929)

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Gross assets (excluding cash and restricted cash)	\$	7,679,582	\$	7,065,151
Net debt to gross assets (excluding cash and restricted cash)		38%		36%

Table of Contents*Net operating income*

See discussion of net operating income and reconciliation of net operating income to income from continuing operations in Results of Operations.

Same property net operating income

See discussion of Same Properties and reconciliation of net operating income to income from continuing operations in Results of Operations.

Unencumbered net operating income as a percentage of total net operating income

Unencumbered net operating income as a percentage of total net operating income is a non-GAAP financial measure that we believe is useful to investors as a performance measure of the results of operations of our unencumbered real estate assets, as it reflects primarily those income and expense items that are incurred at the unencumbered property level. We use unencumbered net operating income as a percentage of total net operating income in order to assess our compliance with our financial covenants under our debt obligations because the measure serves as a proxy for a financial measure under certain of our debt obligations. Unencumbered net operating income is derived from assets classified in continuing operations that are not subject to any mortgage, deed of trust, lien, or other security interest. Unencumbered net operating income for periods through June 30, 2012, has been reclassified to conform to current period presentation related to discontinued operations. See the reconciliation of net operating income to income from continuing operations in Results of Operations.

The following table summarizes unencumbered net operating income as a percentage of total net operating income for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Unencumbered net operating income	\$ 73,543	\$ 64,264	\$ 218,994	\$ 185,413
Encumbered net operating income	27,298	32,931	85,025	105,553
Total net operating income	\$ 100,841	\$ 97,195	\$ 304,019	\$ 290,966
Unencumbered net operating income as a percentage of total net operating income	73%	66%	72%	64%

Table of Contents**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Interest rate risk**

The primary market risk to which we believe we are exposed is interest rate risk, which may result from many factors, including government monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control.

In order to modify and manage the interest rate characteristics of our outstanding debt and to limit the effects of interest rate risks on our operations, we may utilize a variety of financial instruments, including interest rate swap agreements, caps, floors, and other interest rate exchange contracts. The use of these types of instruments to hedge a portion of our exposure to changes in interest rates carries additional risks, such as counterparty credit risk and the legal enforceability of hedging contracts.

Our future earnings and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, our interest rate swap agreements are intended to reduce the effects of interest rate changes. The following table illustrates the effect of a 1% increase/decrease of interest rates, assuming a LIBOR floor of 0%, on our variable rate debt, including our unsecured senior line of credit and unsecured term loans, after considering the effect of our interest rate swap agreements, secured debt, unsecured senior notes payable, and unsecured senior convertible notes (in thousands):

	As of September 30, 2012	As of December 31, 2011
Impact to future earnings due to variable rate debt:		
Rate increase of 1%	\$ (3,542)	\$ (3,357)
Rate decrease of 1%	\$ 8,196	\$ 1,414
Effect on fair value of secured debt:		
Rate increase of 1%	\$ (41,309)	\$ (77,554)
Rate decrease of 1%	\$ 29,423	\$ 35,182

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on September 30, 2012. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, because of the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

Equity price risk

We have exposure to equity price market risk because of our equity investments in certain publicly traded companies and privately held entities. We classify investments in publicly traded companies as available for sale and, consequently, record them on our condensed consolidated

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balance sheets at fair value, with unrealized gains or losses reported as a component of accumulated other comprehensive income or loss. Investments in privately held entities are generally accounted for under the cost method because we do not influence any of the operating or financial policies of the entities in which we invest. For all investments, we recognize other-than-temporary declines in value against earnings in the same period during which the decline in value was deemed to have occurred. There is no assurance that future declines in value will not have a material adverse impact on our future results of operations. The following table illustrates the effect that a 10% change in the fair value of our equity investments would have on earnings (in thousands):

	As of September 30, 2012	As of December 31, 2011
Equity price risk:		
Increase in fair value of 10%	\$ 10,781	\$ 9,600
Decrease in fair value of 10%	\$ (10,781)	\$ (9,600)

Table of Contents**Foreign currency exchange rate risk**

We have exposure to foreign currency exchange rate risk related to our subsidiaries operating in Canada and Asia. The functional currencies of our foreign subsidiaries are the respective local currencies. Gains or losses resulting from the translation of our foreign subsidiaries' balance sheets and statements of income are included in accumulated other comprehensive income as a separate component of total equity. Gains or losses will be reflected in our statements of income when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment. The following table illustrates the effect that a 10% increase or decrease in foreign currency rates relative to the U.S. dollar would have on our earnings, based on our current operating assets outside the U.S. (in thousands):

	As of September 30, 2012	As of December 31, 2011
Foreign currency exchange rate risk:		
Increase in foreign currency exchange rate of 10%	\$ 31	\$ 199
Decrease in foreign currency exchange rate of 10%	\$ (31)	\$ (199)

This sensitivity analysis assumes a parallel shift of all foreign currency exchange rates with respect to the U.S. dollar; however, foreign currency exchange rates do not typically move in such a manner and actual results may differ materially.

Item 4. CONTROLS AND PROCEDURES**Evaluation of disclosure controls and procedures**

As of September 30, 2012, we performed an evaluation, under the supervision of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures have been designed to ensure that information required for disclosure is recorded, processed, summarized, and reported within the requisite time periods. Based on our evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of September 30, 2012.

Changes in internal control over financial reporting

There has not been any change in our internal control over financial reporting during the three months ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. RISK FACTORS

Security breaches through cyber-attacks, cyber-intrusions, or otherwise, could disrupt our information technology networks and related systems.

Risks associated with security breaches, whether through cyber-attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, or otherwise, against persons inside our organization, persons with access to systems inside our organization, the U.S. government, financial markets or institutions, or major businesses, including client tenants, could disrupt or disable networks and related systems, other critical infrastructures and the normal operation of business. The risk of a security breach or disruption, particularly through cyber-attack or cyber-intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Even though we may not be specifically targeted, cyber-attacks on the U.S. government, financial markets or institutions or other major businesses, including client tenants, could disrupt our normal business operations and networks, which may in turn have a material adverse impact on our financial condition and results of operations.

IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations, including managing our building systems and, in some cases, may be critical to the operations of certain of our tenants. Although we make efforts to maintain the security and integrity of these types of networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed

Table of Contents

not to be detected and, in fact, may not be detected. While, to date, we have not experienced a cyber-attack or cyber-intrusion, we may be unable to anticipate or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines and/or missed permitting deadlines;
- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or
- damage our reputation among our tenants and investors generally.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition, and cash flows.

Changes in the method of determining LIBOR rates may adversely affect the fair value of our financial instruments and our earnings.

We hold certain instruments in our debt profile on which interest rates move in direct relation to LIBOR, depending on our selection of borrowing options. Beginning in 2008, concerns have been raised that some of the member banks surveyed by the British Bankers' Association (the BBA) in connection with the calculation of daily LIBOR across a range of maturities and currencies may have under-reported, over-reported, or otherwise manipulated the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. At least one BBA member bank has entered into a settlement with a number of its regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing. Other member banks may also enter into such settlements with, or have proceedings brought by, their regulators or law enforcement agencies in the future. If manipulation of LIBOR occurred, it may have resulted in LIBOR being artificially lower (or higher) than it would otherwise have been. Any such manipulation could have occurred over a substantial period of time.

On September 28, 2012, British regulators published a report on the review of LIBOR. The report concluded that LIBOR should be retained as a benchmark, but recommended a comprehensive reform of LIBOR, including replacing the BBA with a new independent administrator of LIBOR. The British government endorsed recommendations made by the report and instructed relevant institutions involved in the process of setting LIBOR to implement them. Any changes in the method pursuant to which LIBOR is determined, as well as manipulative practices or the

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cessation thereof, may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the level of the index. Fluctuation or discontinuation of LIBOR would affect our interest expense and earnings and the fair value of certain of our financial instruments. We rely on interest rate swaps to help mitigate our exposure to such interest rate risk, on a portion of our debt obligations. However, there is no assurance these arrangements will be effective in reducing our exposure to changes in interest rates.

In addition to the information set forth in this quarterly report on Form 10-Q, one should carefully review and consider the information contained in our other reports and periodic filings that we make with the SEC, including, without limitation, the information contained under

Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011. Those risk factors could materially affect our business, financial condition, and results of operations. The risks that we describe in our public filings are not the only risks that we face. Additional risks and uncertainties not currently known to us, or that we presently deem to be immaterial, also may materially adversely affect our business, financial condition, and results of operations.

Table of Contents

Item 6. EXHIBITS

- 3.1* Articles of Amendment and Restatement of the Company, filed as an exhibit to the Company's quarterly report on Form 10-Q filed with the SEC on August 14, 1997.
- 3.2* Certificate of Correction of the Company, filed as an exhibit to the Company's quarterly report on Form 10-Q filed with the SEC on August 14, 1997.
- 3.3* Bylaws of the Company (as amended December 15, 2011), filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on December 19, 2011.
- 3.4* Articles Supplementary, dated June 9, 1999, relating to the 9.50% Series A Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company's quarterly report on Form 10-Q filed with the SEC on August 13, 1999.
- 3.5* Articles Supplementary, dated February 10, 2000, relating to the election to be subject to Subtitle 8 of Title 3 of the Maryland General Corporation Law, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on February 10, 2000.
- 3.6* Articles Supplementary, dated February 10, 2000, relating to the Series A Junior Participating Preferred Stock, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on February 10, 2000.
- 3.7* Articles Supplementary, dated January 18, 2002, relating to the 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company's Form 8-A for registration of certain classes of securities filed with the SEC on January 18, 2002.
- 3.8* Articles Supplementary, dated June 22, 2004, relating to the 8.375% Series C Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company's Form 8-A for registration of certain classes of securities filed with the SEC on June 28, 2004.
- 3.9* Articles Supplementary, dated March 25, 2008, relating to the 7.00% Series D Cumulative Convertible Preferred Stock, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on March 25, 2008.
- 3.10* Articles Supplementary, dated March 12, 2012, relating to the 6.45% Series E Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on March 14, 2012.
- 4.1* Specimen certificate representing shares of common stock, filed as an exhibit to the Company's quarterly report on Form 10-Q filed with the SEC on May 5, 2011.
- 4.2* Specimen certificate representing shares of 7.00% Series D Cumulative Convertible Preferred Stock, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on March 25, 2008.
- 4.3* Indenture, dated as of April 27, 2009, among the Company, as Issuer, Alexandria Real Estate Equities, L.P., as Guarantor, and Wilmington Trust Company, as Trustee, filed as an exhibit to the Company's quarterly report on Form 10-Q filed with the SEC on August 10, 2009.
- 4.4* Indenture, dated as of February 29, 2012, among the Company, as Issuer, Alexandria Real Estate Equities, L.P., as Guarantor, and the Bank of New York Mellon Trust Company, N.A., as Trustee, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on February 29, 2012.
- 4.5* Supplemental Indenture No. 1, dated as of February 29, 2012, among the Company, as Issuer, Alexandria Real Estate Equities, L.P., as Guarantor, and the Bank of New York Mellon Trust Company, N.A., as Trustee, filed as an exhibit to the Company's current report on Form 8-K filed with the SEC on February 29, 2012.
- 4.6* Form of 4.60% Senior Note due 2022 (included in Exhibit 4.5 above).
- 4.7* Specimen certificate representing shares of 6.45% Series E Cumulative Redeemable Preferred Stock, filed as an exhibit to the Company's Form 8-A for registration of certain classes of securities filed with the SEC on March 12, 2012.
- 11.1 Statement of Computation of Per Share Earnings (included in Note 8 to the Condensed Consolidated Financial Statements).
- 12.1 Computation of Consolidated Ratios of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends.
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.0 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company's quarterly report on Form 10-Q for the three and nine months ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2012, and December 31, 2011 (unaudited), (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011 (unaudited), (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011 (unaudited), (iv) Condensed Consolidated Statement of Changes in Stockholders' Equity and Noncontrolling Interests for the nine months ended September 30, 2012 (unaudited), (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 (unaudited), and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).

(*) Incorporated by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 9, 2012.

ALEXANDRIA REAL ESTATE EQUITIES, INC.

/s/ Joel S. Marcus
Joel S. Marcus

Chairman/Chief Executive Officer

(Principal Executive Officer)

/s/ Dean A. Shigenaga
Dean A. Shigenaga

Chief Financial Officer

(Principal Financial Officer)