

ALEXANDRIA REAL ESTATE EQUITIES INC  
Form 10-Q  
August 07, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12993

ALEXANDRIA REAL ESTATE EQUITIES, INC.  
(Exact name of registrant as specified in its charter)

Maryland

95-4502084

(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.

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Large accelerated filer

Accelerated filer

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

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 July 18, 2014, 71,749,433 shares of common stock, par value \$.01 per share, were outstanding.

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TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	
<u>Consolidated Balance Sheets as of June 30, 2014, and December 31, 2013</u>	<u>3</u>
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2014 and 2013</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013</u>	<u>5</u>
<u>Consolidated Statement of Changes in Stockholders' Equity and Noncontrolling Interests for the Six Months Ended June 30, 2014</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>9</u>
<u>Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>41</u>
<u>Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>85</u>
<u>Item 4. CONTROLS AND PROCEDURES</u>	<u>86</u>
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1A. RISK FACTORS</u>	<u>87</u>
<u>Item 6. EXHIBITS</u>	<u>88</u>
<u>SIGNATURES</u>	<u>90</u>

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Alexandria Real Estate Equities, Inc.  
 Consolidated Balance Sheets  
 (In thousands)  
 (Unaudited)

	June 30, 2014	December 31, 2013
Assets		
Investments in real estate	\$7,030,117	\$6,776,914
Cash and cash equivalents	61,701	57,696
Restricted cash	24,519	27,709
Tenant receivables	10,654	9,918
Deferred rent	214,793	190,425
Deferred leasing and financing costs	193,621	192,658
Investments	174,802	140,288
Other assets	105,442	134,156
Total assets	\$7,815,649	\$7,529,764
Liabilities, Noncontrolling Interests, and Equity		
Secured notes payable	\$615,551	\$708,831
Unsecured senior notes payable	1,048,310	1,048,230
Unsecured senior line of credit	571,000	204,000
Unsecured senior bank term loans	1,100,000	1,100,000
Accounts payable, accrued expenses, and tenant security deposits	434,528	435,342
Dividends payable	57,377	54,420
Total liabilities	3,826,766	3,550,823
Commitments and contingencies		
Redeemable noncontrolling interests	14,381	14,444
Alexandria Real Estate Equities, Inc.'s stockholders' equity:		
Series D cumulative convertible preferred stock	250,000	250,000
Series E cumulative redeemable preferred stock	130,000	130,000
Common stock	713	712
Additional paid-in capital	3,542,334	3,572,281
Accumulated other comprehensive loss	(16,245	) (36,204
Alexandria's stockholders' equity	3,906,802	3,916,789
Noncontrolling interests	67,700	47,708
Total equity	3,974,502	3,964,497
Total liabilities, noncontrolling interests, and equity	\$7,815,649	\$7,529,764

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



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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Rental	\$ 134,992	\$ 114,493	\$ 265,562	\$ 226,019
Tenant recoveries	40,944	35,869	82,626	71,434
Other income	466	3,568	4,400	6,560
Total revenues	176,402	153,930	352,588	304,013
<b>Expenses:</b>				
Rental operations	52,353	46,277	104,860	91,463
General and administrative	13,836	12,455	27,060	24,103
Interest	17,433	15,978	36,556	33,998
Depreciation and amortization	57,314	46,344	107,735	92,173
Loss on early extinguishment of debt	—	560	—	560
Total expenses	140,936	121,614	276,211	242,297
Income from continuing operations	35,466	32,316	76,377	61,716
(Loss) income from discontinued operations	(147	) 249	(309	) 1,086
Gain on sale of land parcel	797	772	797	772
Net income	36,116	33,337	76,865	63,574
Dividends on preferred stock	(6,472	) (6,471	) (12,943	) (12,942
Net income attributable to noncontrolling interests	(1,307	) (980	) (2,502	) (1,962
Net income attributable to unvested restricted stock awards	(405	) (403	) (779	) (745
Net income attributable to Alexandria's common stockholders	\$ 27,932	\$ 25,483	\$ 60,641	\$ 47,925
<b>Earnings per share attributable to Alexandria's common stockholders – basic and diluted:</b>				
Continuing operations	\$ 0.39	\$ 0.38	\$ 0.85	\$ 0.72
Discontinued operations	—	—	—	0.02
Earnings per share – basic and diluted	\$ 0.39	\$ 0.38	\$ 0.85	\$ 0.74

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$36,116	\$33,337	\$76,865	\$63,574
Other comprehensive income:				
Unrealized (losses) gains on marketable securities:				
Unrealized holding (losses) gains arising during the period	(2,734	) 44	16,045	360
Reclassification adjustment for losses (gains) included in net income	406	42	406	(230
Unrealized (losses) gains on marketable securities, net	(2,328	) 86	16,451	130
Unrealized (losses) gains on interest rate swap agreements:				
Unrealized interest rate swap (losses) gains arising during the period	(2,526	) 105	(3,914	) (28
Reclassification adjustment for amortization of interest expense included in net income	1,123	3,834	4,613	8,142
Unrealized (losses) gains on interest rate swap agreements, net	(1,403	) 3,939	699	8,114
Foreign currency translation gains (losses)	5,915	(20,698	) 2,809	(23,057
Total other comprehensive income (loss)	2,184	(16,673	) 19,959	(14,813
Comprehensive income	38,300	16,664	96,824	48,761
Less: comprehensive income attributable to noncontrolling interests	(1,307	) (1,008	) (2,502	) (1,906
Comprehensive income attributable to Alexandria's common stockholders	\$36,993	\$15,656	\$94,322	\$46,855

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

## Alexandria Real Estate Equities, Inc.

## Consolidated Statements of Changes in Stockholders' Equity and Noncontrolling Interests

(Dollars in thousands)

(Unaudited)

	Alexandria Real Estate Equities, Inc.'s Stockholders' Equity									
	Series D Cumulative Convertible Preferred Stock	Series E Cumulative Redeemable Preferred Stock	Number of Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Equity
Balance as of December 31, 2013	\$250,000	\$130,000	71,172,197	\$712	\$3,572,281	\$—	\$(36,204)	\$47,708	\$3,964,497	\$14,444
Net income	—	—	—	—	—	74,363	—	1,970	76,333	532
Total other comprehensive income	—	—	—	—	—	—	19,959	—	19,959	—
Contributions by noncontrolling interests	—	—	—	—	—	—	—	19,410	19,410	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,388)	(1,388)	(595)
Issuances pursuant to stock plan	—	—	145,884	1	10,457	—	—	—	10,458	—
Dividends declared on common stock	—	—	—	—	—	(101,824)	—	—	(101,824)	—
Dividends declared on preferred stock	—	—	—	—	—	(12,943)	—	—	(12,943)	—
Distributions in excess of earnings	—	—	—	—	(40,404)	40,404	—	—	—	—
Balance as of June 30, 2014	\$250,000	\$130,000	71,318,081	\$713	\$3,542,334	\$—	\$(16,245)	\$67,700	\$3,974,502	\$14,381

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

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

	Six Months Ended June 30,	
	2014	2013
<b>Operating Activities</b>		
Net income	\$76,865	\$63,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	107,735	93,575
Loss on early extinguishment of debt	—	560
Gain on sale of land parcel	(797)	(772)
Loss on sale of real estate	—	121
Amortization of loan fees and costs	5,304	4,813
Amortization of debt premiums/discounts	136	237
Amortization of acquired above and below market leases	(1,434)	(1,660)
Deferred rent	(24,619)	(14,437)
Stock compensation expense	6,304	7,812
Investment gains	(6,225)	(2,666)
Investment losses	5,240	529
Changes in operating assets and liabilities:		
Restricted cash	—	392
Tenant receivables	(735)	847
Deferred leasing costs	(17,452)	(23,109)
Other assets	(5,916)	6,110
Accounts payable, accrued expenses, and tenant security deposits	85	8,215
Net cash provided by operating activities	144,491	144,141
<b>Investing Activities</b>		
Proceeds from sales of properties	17,868	101,815
Additions to properties	(210,792)	(298,927)
Purchase of properties	(97,785)	—
Change in restricted cash related to construction projects	5,650	(8,889)
Contributions to unconsolidated real estate entity	(1,405)	(4,889)
Loss in investments from unconsolidated real estate entity	—	(293)
Additions to investments	(25,358)	(14,833)
Proceeds from sales of investments	8,794	9,544
Proceeds from repayment of note receivable	29,851	—
Net cash used in investing activities	\$(273,177)	\$(216,472)

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

	Six Months Ended June 30,	
	2014	2013
Financing Activities		
Borrowings from secured notes payable	\$77,762	\$26,114
Repayments of borrowings from secured notes payable	(219,427)	(31,436)
Proceeds from issuance of unsecured senior notes payable	—	495,310
Principal borrowings from unsecured senior line of credit	637,000	305,000
Repayments of borrowings from unsecured senior line of credit	(270,000)	(871,000)
Repayment of unsecured senior bank term loan	—	(150,000)
Change in restricted cash related to financings	1,212	16,634
Deferred financing costs paid	(310)	(1,457)
Proceeds from common stock offering	—	534,469
Dividends paid on common stock	(98,867)	(73,932)
Dividends paid on preferred stock	(12,943)	(12,942)
Contributions by noncontrolling interests	19,410	—
Distributions to noncontrolling interests	(1,388)	(639)
Distributions to redeemable noncontrolling interests	(595)	(596)
Net cash provided by financing activities	131,854	235,525
Effect of foreign exchange rate changes on cash and cash equivalents	837	(1,960)
Net increase in cash and cash equivalents	4,005	161,234
Cash and cash equivalents at beginning of period	57,696	140,971
Cash and cash equivalents at end of period	\$61,701	\$302,205
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest, net of interest capitalized	\$	