

BioMed Realty Trust Inc
Form 10-Q
August 08, 2006

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**Form 10-Q
QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006.
Commission File Number: 1-32261**

BIOMED REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland

*(State or other jurisdiction of
incorporation or organization)*

20-1142292

(I.R.S. Employer Identification No.)

17140 Bernardo Center Drive, Suite 222

San Diego, California

(Address of Principal Executive Offices)

92128

(Zip Code)

(858) 485-9840

(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

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

The number of outstanding shares of the registrant's common stock, par value \$0.01 per share, as of August 7, 2006 was 57,228,732.

Table of Contents

**BIOMED REALTY TRUST, INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006
TABLE OF CONTENTS**

<u>PART I FINANCIAL INFORMATION</u>	Page
<u>Item 1 Consolidated Financial Statements</u>	3
<u>Consolidated Balance Sheets for BioMed Realty Trust, Inc. as of June 30, 2006 (Unaudited) and December 31, 2005</u>	3
<u>Consolidated Statements of Income for BioMed Realty Trust, Inc. for the three months ended June 30, 2006 and 2005 (Unaudited)</u>	4
<u>Consolidated Statements of Income for BioMed Realty Trust, Inc. for the six months ended June 30, 2006 and 2005 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for BioMed Realty Trust, Inc. for the six months ended June 30, 2006 and 2005 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4 Controls and Procedures</u>	26
<u>PART II OTHER INFORMATION</u>	27
<u>Item 1 Legal Proceedings</u>	27
<u>Item 1A Risk Factors</u>	27
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3 Defaults Upon Senior Securities</u>	30
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	30
<u>Item 5 Other Information</u>	31
<u>Item 6 Exhibits</u>	31
<u>SIGNATURES</u>	32
<u>EXHIBIT 10.6</u>	
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32.1</u>	

Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

BIOMED REALTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2006	December 31, 2005
	(Unaudited)	
ASSETS		
Investments in real estate, net	\$ 1,589,788	\$ 1,129,371
Investment in unconsolidated partnership	2,454	2,483
Cash and cash equivalents	23,093	20,312
Restricted cash	5,249	5,487
Accounts receivable, net	2,981	9,873
Accrued straight-line rents, net	12,855	8,731
Acquired above market leases, net	8,625	8,817
Deferred leasing costs, net	126,549	136,640
Deferred loan costs, net	6,282	4,855
Prepaid expenses	2,362	2,164
Other assets	26,714	8,577
Total assets	\$ 1,806,952	\$ 1,337,310
LIABILITIES AND STOCKHOLDERS EQUITY		
Mortgage notes payable, net	\$ 244,402	\$ 246,233
Secured term loan	250,000	250,000
Secured bridge loan	150,000	
Unsecured line of credit	60,800	17,000
Security deposits	7,264	6,905
Dividends and distributions payable	17,427	13,365
Accounts payable, accrued expenses, and other liabilities	23,611	23,012
Acquired below market leases, net	27,529	29,647
Total liabilities	781,033	586,162
Minority interests	19,907	20,673
Stockholders equity:		
Preferred stock, \$.01 par value, 15,000,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 100,000,000 shares authorized, 57,228,732 and 46,634,432 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	571	466
Additional paid-in capital	1,045,831	757,591

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Accumulated other comprehensive income	11,646	5,922
Dividends in excess of earnings	(52,036)	(33,504)
Total stockholders' equity	1,006,012	730,475
Total liabilities and stockholders' equity	\$ 1,806,952	\$ 1,337,310

See accompanying notes to consolidated financial statements.

3

Table of Contents

BIOMED REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005 (Unaudited)
Revenues:		
Rental	\$ 36,556	\$ 19,990
Tenant recoveries	12,839	8,556
Other income	64	
 Total revenues	 49,459	 28,546
Expenses:		
Rental operations	9,642	6,721
Real estate taxes	4,587	2,476
Depreciation and amortization	14,714	8,476
General and administrative	4,206	2,695
 Total expenses	 33,149	 20,368
 Income from operations	 16,310	 8,178
Equity in net income of unconsolidated partnership	22	20
Interest income	435	119
Interest expense	(9,253)	(6,812)
 Income before minority interests	 7,514	 1,505
Minority interests in consolidated partnerships	46	65
Minority interests in operating partnership	(402)	(130)
 Net income	 \$ 7,158	 \$ 1,440
 Basic earnings per share	 \$ 0.14	 \$ 0.05
 Diluted earnings per share	 \$ 0.14	 \$ 0.05

Weighted-average common shares outstanding:

Basic	51,394,117	31,861,536
Diluted	54,534,393	34,893,367

See accompanying notes to consolidated financial statements.

4

Table of Contents

BIOMED REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Unaudited)	
Revenues:		
Rental	\$ 67,734	\$ 34,276
Tenant recoveries	25,448	15,810
Other income	70	2,948
 Total revenues	 93,252	 53,034
Expenses:		
Rental operations	19,185	13,116
Real estate taxes	8,828	4,264
Depreciation and amortization	28,075	14,667
General and administrative	8,554	5,245
 Total expenses	 64,642	 37,292
 Income from operations	 28,610	 15,742
Equity in net income of unconsolidated partnership	42	71
Interest income	595	180
Interest expense	(17,037)	(8,223)
 Income before minority interests	 12,210	 7,770
Minority interests in consolidated partnerships	100	174
Minority interests in operating partnership	(678)	(668)
 Net income	 \$ 11,632	 \$ 7,276
 Basic earnings per share	 \$ 0.24	 \$ 0.23
 Diluted earnings per share	 \$ 0.24	 \$ 0.23

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Weighted-average common shares outstanding:

Basic	48,895,318	31,514,608
Diluted	52,062,831	34,544,121

See accompanying notes to consolidated financial statements.

5

Table of Contents

BIOMED REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (revised - See note 2) (Unaudited)
Operating activities:		
Net income	\$ 11,632	\$ 7,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,075	14,667
Minority interests in consolidated partnerships	(100)	(174)
Minority interests in operating partnership	678	668
Bad debt expense	53	200
Revenue reduction attributable to acquired above market leases	1,220	813
Revenue recognized related to acquired below market leases	(2,371)	(991)
Compensation expense related to restricted common stock	1,811	1,531
Amortization of deferred loan costs	719	2,333
Amortization of debt premium on mortgage notes payable	(1,220)	(650)
Income from unconsolidated partnership	(42)	(71)
Distributions received from unconsolidated partnership	71	51
Changes in operating assets and liabilities:		
Restricted cash	238	(2,122)
Accounts receivable	6,916	(4,053)
Accrued straight-line rents	(4,124)	(2,314)
Deferred leasing costs	(1,197)	(438)
Prepaid expenses	(198)	(1,096)
Other assets	118	(46)
Due to affiliates		(53)
Security deposits	61	437
Accounts payable, accrued expenses and other liabilities	2,407	4,517
Net cash provided by operating activities	44,747	20,485
Investing activities:		
Purchases of interests in and additions to real estate and related intangible assets	(478,515)	(486,455)
Minority interest investment in consolidated partnerships	316	564
Receipts of master lease payments	454	1,303
Security deposits received from prior owners of rental property	298	708
Additions to non-real estate assets	(711)	(189)
Funds held in escrow for acquisitions	(11,810)	450
Net cash used in investing activities	(489,968)	(483,619)

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Financing activities:			
Proceeds from common stock offering	298,999		340,256
Payment of offering costs	(12,397)		(16,106)
Payment of loan costs	(2,026)		(6,158)
Line of credit proceeds	82,030		227,175
Line of credit payments	(38,230)		(227,175)
Secured term loan proceeds			250,000
Unsecured term loan proceeds			100,000
Unsecured term loan payments			(100,000)
Secured bridge loan proceeds	150,000		
Principal payments on mortgage notes payable	(2,612)		(1,202)
Distributions to operating partnership unit holders	(1,603)		(1,550)
Dividends paid	(26,159)		(16,961)
Net cash provided by financing activities	448,002		548,279
Net increase in cash and cash equivalents	2,781		85,145
Cash and cash equivalents at beginning of period	20,312		27,869
Cash and cash equivalents at end of period	\$ 23,093	\$	113,014
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest (net of amounts capitalized of \$571 and \$171, respectively)	\$ 16,585	\$	4,288
Supplemental disclosure of non-cash investing and financing activities:			
Accrual for dividends declared	16,596		8,490
Accrual for distributions declared for operating partnership unit holders	830		775
Mortgage loans assumed (includes premium of \$236 and \$11,229, respectively)	2,001		149,434
Accrued additions to real estate and related intangible assets	2,648		8,442
Accrued additions to non-real estate assets			83
Accrued additions to pre-acquisition costs	171		19
Accrued deferred loan costs	120		37
Accrued offering costs	68		474
Master lease payment receivable	(77)		

See accompanying notes to consolidated financial statements.

Table of Contents

**BIOMED REALTY TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

1. Organization and Description of Business

As used herein, the terms we, us, our or the Company refer to BioMed Realty Trust, Inc., a Maryland corporation and any of our subsidiaries, including BioMed Realty, L.P., a Maryland limited partnership (our Operating Partnership), and 201 Industrial Road, L.P. (Industrial Road or our Predecessor). The Company was incorporated in Maryland on April 30, 2004. On August 11, 2004, the Company commenced operations after completing its initial public offering. We operate as a fully integrated, self-administered and self-managed real estate investment trust (REIT) focused on acquiring, developing, owning, leasing and managing laboratory and office space for the life science industry. The Company's tenants primarily include biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other entities involved in the life science industry. The Company's properties and primary acquisition targets are generally located in markets with well established reputations as centers for scientific research, including Boston, San Diego, San Francisco, Seattle, Maryland, Pennsylvania and New York/New Jersey.

On June 7, 2006, the Company completed a follow-on common stock offering of 10,436,250 shares at \$28.65 per share, resulting in net proceeds of \$286.5 million.

As of June 30, 2006, the Company owned or had interests in 47 properties, located principally in Boston, San Diego, San Francisco, Seattle, Maryland, Pennsylvania and New York/New Jersey, consisting of 71 buildings with approximately 5.9 million rentable square feet of laboratory and office space, which was approximately 91.4% leased to 94 tenants. Of the approximately 505,000 square feet of unleased space, 344,000 square feet, or 68.2 % of our unleased square footage, was under redevelopment. The Company also owned undeveloped land that we estimate can support up to 1,299,000 rentable square feet of laboratory and office space.

2. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying interim financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments and eliminations, consisting of normal recurring adjustments necessary for a fair presentation of the financial statements for these interim periods have been recorded. These financial statements should be read in conjunction with the audited consolidated financial statements and notes therein included in our annual report on Form 10-K for the year ended December 31, 2005.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, partnerships and limited liability companies it controls, and variable interest entities for which the Company has determined itself to be the primary beneficiary. All material intercompany transactions and balances have been eliminated. The Company consolidates entities the Company controls and records a minority interest for the portions not owned by the Company. Control is determined, where applicable, by the sufficiency of equity invested and the rights of the equity holders, and by the ownership of a majority of the voting interests, with consideration given to the existence of approval or veto rights granted to the minority shareholder. If the minority shareholder holds substantive participation rights, it overcomes the presumption of control by the majority voting interest holder. In contrast, if the minority shareholder simply holds protective rights (such as consent rights over certain actions), it does not overcome the presumption of control by the majority voting interest holder.

Table of Contents***Investments in Partnerships***

The Company evaluates its investments in limited liability companies and partnerships under Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46(R)), an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*. FIN 46(R) provides guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and the determination of which business enterprise should consolidate the VIE (the primary beneficiary). Generally, FIN 46(R) applies when either (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest, (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest.

The Company also utilizes EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5), which provides guidance in determining whether a general partner controls a limited partnership. EITF 04-5 states that the general partner in a limited partnership is presumed to control that limited partnership. The presumption may be overcome if the limited partners have either (1) the substantive ability to dissolve the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights, which provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership. If the criteria in EITF 04-5 are met, the consolidation of existing limited liability companies and partnerships accounted for under the equity method may be required.

On a periodic basis, management assesses whether there are any indicators that the carrying value of the Company's investments in partnerships may be impaired. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. Management does not believe that the carrying values of any of the Company's investments in partnerships are impaired.

Investments in Real Estate

Investment in real estate, net consists of the following (in thousands):

	June 30, 2006	December 31, 2005
Land	\$ 192,970	\$ 146,421
Ground lease	14,210	14,210
Buildings and improvements	1,356,987	962,482
Construction in progress	22,287	8,582
Tenant improvements	40,548	19,580
	1,627,002	1,151,275
Accumulated depreciation	(37,214)	(21,904)
	\$ 1,589,788	\$ 1,129,371

The purchase prices of our acquisitions completed in 2006 have been allocated on a preliminary basis to the assets acquired and the liabilities assumed. We expect to finalize our purchase price allocation no later than twelve months from the date of acquisition.

The balance of acquired above market leases was comprised as follows (in thousands):

June 30,

	2006	December 31, 2005
Acquired above market leases	\$ 11,907	\$ 10,879
Accumulated amortization	(3,282)	(2,062)
	\$ 8,625	\$ 8,817

Table of Contents

The balance of acquired below market leases was comprised as follows (in thousands):

	June 30, 2006	December 31, 2005
Acquired below market leases	\$ 33,483	\$ 33,230
Accumulated amortization	(5,954)	(3,583)
	\$ 27,529	\$ 29,647

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If lower than the carrying amount of the assets, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of June 30, 2006, no assets have been identified as impaired.

Deferred Leasing Costs

Leasing commissions and other direct costs associated with new or renewal lease activity is recorded at cost and amortized on a straight-line basis over the terms of the respective leases, ranging from three months to twelve years. Deferred leasing costs also include the net carrying value of acquired in-place leases and acquired management agreements.

The balance at June 30, 2006 was comprised as follows (in thousands):

	Balance at June 30, 2006	Accumulated Amortization	Net
Acquired in-place leases	\$ 150,977	\$ (34,207)	\$ 116,770
Acquired management agreements	10,727	(3,493)	7,234
Deferred leasing and other direct costs	3,026	(481)	2,545
	\$ 164,730	\$ (38,181)	\$ 126,549

The balance at December 31, 2005 was comprised as follows (in thousands):

	Balance at December 31, 2005	Accumulated Amortization	Net
Acquired in-place leases	\$ 149,312	\$ (22,577)	\$ 126,735
Acquired management agreements	10,717	(2,505)	8,212
Deferred leasing and other direct costs	2,026	(333)	1,693
	\$ 162,055	\$ (25,415)	\$ 136,640

Accumulated Other Comprehensive Income

The following tables provide a reconciliation of comprehensive income/(loss) (in thousands):

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Net income	7,158	1,440
Unrealized gain/(loss) on interest rate swap agreements	2,390	(1,765)
Comprehensive income/(loss)	9,548	(325)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net income	11,632	7,276
Unrealized gain/(loss) on interest rate swap agreements	5,724	(1,765)
Comprehensive income	17,356	5,511

Table of Contents

Revenue Recognition

All leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the term of the related lease. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in accrued straight-line rents on the accompanying consolidated balance sheets and contractually due but unpaid rents are included in accounts receivable.

Substantially all operations expenses, consisting of real estate taxes, insurance and common area maintenance costs are recoverable from tenants under the terms of lease agreements, but are dependent on several factors, including occupancy and lease terms. Revenue is recognized in the period the expenses are incurred. The reimbursements are recognized and presented in accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent* (EITF 99-19). EITF 99-19 requires that these reimbursements be recorded gross, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the credit risk.

Lease termination fees are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants. A gain on early termination of a lease of \$3.0 million for the six months ended June 30, 2005 is included in other income on the consolidated statements of income and was due to the early termination of a portion of the Nektar lease at our Industrial Road property. Accordingly, the related deferred lease commissions and remaining other related intangible assets have been fully amortized.

Incentive Awards

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) requires that all share-based payments to employees be recognized in the income statement based on their fair value. The fair-value is recorded based on the market value of the common stock on the grant date and is amortized to general and administrative expense over the respective vesting periods. Prior to the adoption of SFAS 123(R), the Company followed SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148. SFAS 123 required that compensation expense be recorded for the fair-value of restricted stock granted by the Company to employees and non-employee directors. The treatment of restricted stock grants under SFAS 123(R) does not materially differ from the treatment under SFAS 123. The Company currently has no stock options outstanding.

The Company adopted SFAS 123(R) using a modified prospective application as permitted under SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the fiscal year of adoption. The impact of adopting SFAS 123(R) on all previously granted restricted stock awards approximates the impact of using SFAS 123, therefore no change in the amount recognized for these awards in the current period is necessary.

Management's Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reporting of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with GAAP. The Company bases its estimates on historical experience and on

Table of Contents

various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and reported amounts of revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

Reclassifications

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

Revisions to Consolidated Statements of Cash Flows

Certain revisions have been made to the consolidated statements of cash flows for the six months ended June 30, 2005 to remove the non-cash effect of changes in some balance sheet items, which are reflected in the supplemental disclosure of cash flow information in the current year presentation. These revisions are immaterial to the prior period presented and resulted in a decrease in cash flows from operating activities of approximately \$2.6 million, an increase in cash flows from investing activities of approximately \$2.5 million, and an increase in cash flows from financing activities of approximately \$38,000.

3. Minority Interests

Minority interests on the consolidated balance sheets relate primarily to the limited partnership units in the Operating Partnership (Units) that are not owned by the Company, which at June 30, 2006 and 2005 amounted to 4.79% and 5.84%, respectively, of Units outstanding. In conjunction with the formation of the Company, certain persons and entities contributing interests in properties to the Operating Partnership received Units. Limited partners who were issued Units in the formation transactions have the right, commencing on October 1, 2005, to require the Operating Partnership to redeem part or all of their Units. The Company may elect to acquire those Units in exchange for shares of the Company's common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events, or pay cash based upon the fair market value of an equivalent number of shares of the Company's common stock at the time of redemption. Minority interests also include the 11% interest of a limited partner in the limited partnership that owns the King of Prussia property, the 10% interest of a member in the limited liability company that owns the Waples property, the 10% interest of a member in the limited liability company that owns the Fairview property, and the 12.5% interest of a member in the limited liability company that owns the Ardenwood property, which are consolidated entities of the Company.

4. Mortgage Notes Payable

A summary of our outstanding consolidated mortgage notes payable was as follows (dollars in thousands):

	Stated Fixed Interest Rate	Effective Interest Rate	Principal Balance June 30, 2006	December 31, 2005	Maturity Date
Ardentech Court	7.25%	5.06%	\$ 4,703	\$ 4,746	July 1, 2012
Bayshore Boulevard	4.55%	4.55%	15,920	16,107	January 1, 2010
Bridgeview Technology Park I	8.07%	5.04%	11,678	11,732	January 1, 2011
Eisenhower Road	5.80%	4.63%	2,183	2,211	May 5, 2008
Elliott Avenue	7.38%	4.63%	16,277	16,526	November 24, 2007
40 Erie Street	7.34%	4.90%	19,174	19,575	August 1, 2008
Kendall Square D	6.38%	5.45%	71,690	72,395	December 1, 2018

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Lucent Drive	5.50%	5.50%	5,825	5,899	January 21, 2015
Monte Villa Parkway	4.55%	4.55%	9,692	9,805	January 1, 2010
Nancy Ridge Drive	7.15%	5.38%	6,912	6,952	September 1, 2012
Science Center Drive	7.65%	5.04%	11,510	11,577	July 1, 2011
Sidney Street	7.23%	5.11%	31,086	31,426	June 1, 2012
Towne Centre Drive	4.55%	4.55%	22,137	22,396	January 1, 2010
900 Uniqema Boulevard	8.61%	5.61%	1,714		May 1, 2015
			230,501	231,347	
Unamortized premium			13,901	14,886	
			\$ 244,402	\$ 246,233	

Premiums were recorded upon assumption of the mortgage notes payable at the time of acquisition to account for above-market interest rates. Amortization of these premiums is recorded as a reduction to interest expense over the remaining term of the respective note using the effective-interest method.

Table of Contents**5. Credit Facilities**

On August 11, 2004, the Company entered into a \$100.0 million revolving unsecured loan agreement, which bore interest at LIBOR plus 1.20%, or higher depending on the leverage ratio of the Company, or a reference rate, and was scheduled to expire on August 11, 2007. This credit facility was fully repaid and terminated on May 31, 2005 with funds drawn on the Company's new credit facilities as discussed below. Accordingly, the related unamortized loan costs of \$901,000 were expensed in the three months ended June 30, 2005.

On May 31, 2005, the Company entered into three credit facilities with KeyBank National Association (KeyBank) and other lenders under which the Company initially borrowed \$485.0 million of a total of \$600.0 million available under these facilities. The credit facilities include an unsecured revolving credit facility of \$250.0 million, under which the Company initially borrowed \$135.0 million, an unsecured term loan of \$100.0 million and a secured term loan of \$250.0 million. The Company borrowed the full amounts under the \$100.0 million unsecured term loan and \$250.0 million secured term loan. The unsecured revolving credit facility had a maturity date of May 30, 2008, but was amended on June 28, 2006 to extend the maturity date and increase the amount of the credit facility as discussed below. The secured term loan was also amended on June 28, 2006 to revise certain restrictions and covenants consistent with the amendment and restatement of the unsecured revolving credit facility as discussed below. The \$100.0 million unsecured term loan facility was fully repaid with the proceeds from our follow-on common stock offering in June 2005 and terminated on June 27, 2005. Accordingly, related unamortized loan costs of \$1.1 million were expensed in the three months ended June 30, 2005.

On May 24, 2006, the Company entered into a secured bridge loan with KeyBank and other lenders, under which the Company borrowed \$150.0 million. The bridge loan had a term of three months and bore interest at a floating rate equal to, at the Company's option, either (1) LIBOR plus 140 basis points or (2) the higher of (a) the prime rate then in effect and (b) the federal funds rate then in effect plus a spread of 50 basis points. The interest rate was subsequently adjusted per amendment between the Company and KeyBank on July 5, 2006, changing the applicable margin due on the LIBOR rate from 140 basis points to 120 basis points. The bridge loan is secured by the Company's Shady Grove Road property and any related collateral. The Company, at its sole discretion, may extend the maturity date of the bridge loan for an additional three months after satisfying certain conditions. The Company exercised its option to extend the maturity date subsequent to quarter-end, resulting in a new maturity date of November 23, 2006. At June 30, 2006, the Company had \$150.0 million in outstanding borrowings on its secured bridge loan.

On June 28, 2006, the Company entered into an amended and restated unsecured revolving credit facility and a first amendment to its \$250.0 million secured term loan facility with KeyBank, as administrative agent, and certain other lenders. The amendment and restatement of the unsecured revolving credit facility increased the company's available borrowings from \$250.0 million to \$500.0 million and extended the maturity date of the facility to June 27, 2009. The unsecured revolving credit facility bears interest at a floating rate equal to, at our option, either (1) reserve adjusted LIBOR plus a spread which ranges from 110 to 160 basis points, depending on the Company's leverage, or (2) the higher of (a) the prime rate then in effect plus a spread which ranges from 0 to 25 basis points, or (b) the federal funds rate then in effect plus a spread which ranges from 50 to 75 basis points, in each case, depending on our leverage. The Company may increase the amount of the unsecured revolving credit facility to \$700.0 million subject to certain conditions. In addition, the Company, at its sole discretion, may extend the maturity date of the unsecured revolving credit facility to June 27, 2010 after satisfying certain conditions and paying an extension fee based on the then current facility commitment. The Company has deferred the incremental loan costs associated with the amended unsecured revolving credit facility of approximately \$1.8 million, which will be amortized to expense with the unamortized loan costs from the original debt facility over the remaining term. The \$250.0 million secured term loan, which is secured by 14 of our properties, continues to have a maturity date of May 30, 2010 and bears interest at a floating rate equal to, at our option, either (1) reserve adjusted LIBOR plus 225 basis points or (2) the higher of (a) the prime rate then in effect plus 50 basis points and (b) the federal funds rate then in effect plus 100 basis points. The secured term loan is also secured by our interest in any distributions from these properties and a pledge of the equity interests in a subsidiary owning one of these properties. The Company entered into an interest rate swap agreement in connection with the initial closing of the credit facilities, which has the effect of fixing the interest rate on the secured term loan at 6.4%. At June 30, 2006, the Company had \$60.8 million in outstanding borrowings on its unsecured

revolving credit facility and \$250.0 million in outstanding borrowings on its secured term loan.

Table of Contents

The terms of the amended credit agreements for the unsecured revolving credit facility and secured term loan include certain restrictions and covenants, which limit, among other things, the payment of dividends, and the incurrence of additional indebtedness and liens. The terms also require compliance with financial ratios relating to the minimum amounts of net worth, fixed charge coverage, unsecured debt service coverage, interest coverage, the maximum amount of secured, variable-rate and recourse indebtedness, leverage ratio, and certain investment limitations. The dividend restriction referred to above provides that, except to enable the Company to continue to qualify as a REIT for federal income tax purposes, the Company will not make distributions with respect to common stock or other equity interests in an aggregate amount for the preceding four fiscal quarters in excess of 95% of funds from operations, as defined, for such period, subject to other adjustments. Management believes that it was in compliance with the covenants as of June 30, 2006.

As of June 30, 2006, principal payments due for our consolidated indebtedness (mortgage notes payable, secured term loan, unsecured line of credit, and secured bridge loan excluding debt premium of \$13.9 million) were as follows (in thousands):

2006	\$ 152,888
2007	21,352
2008	24,137
2009	65,584
2010	297,186
Thereafter	130,154
	\$ 691,301

6. Earnings Per Share

Earnings per share (EPS) is calculated based on the weighted number of shares of our common stock outstanding during the period. The effect of the outstanding Units, vesting of unvested restricted stock that has been granted, and the assumed exercise of a stock warrant issued in connection with our initial public offering, using the treasury method, were dilutive and included in the calculation of diluted weighted-average shares for the three and six months ended June 30, 2006 and 2005. No shares were considered antidilutive as of June 30, 2006 and 2005.

The following table sets forth information related to the computations of basic and diluted EPS in accordance with SFAS No. 128, *Earnings per Share* (in thousands, except per share amounts):

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005
Net income attributable to common shares	\$ 7,158	\$ 1,440
Minority interests in operating partnership	402	130
Adjusted net income attributable to common shares	\$ 7,560	\$ 1,570
Weighted-average common shares outstanding:		
Basic	51,394,117	31,861,536
Incremental shares from assumed conversion/exercise:		
Stock warrant	125,993	79,858
Vesting of restricted stock	150,719	81,409
Operating partnership units	2,863,564	2,870,564

Diluted		54,534,393	34,893,367
Earnings per share	basic and diluted	\$ 0.14	\$ 0.05

Table of Contents

	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
Net income attributable to common shares	\$ 11,632	\$ 7,276
Minority interests in operating partnership	678	668
Adjusted net income attributable to common shares	\$ 12,310	\$ 7,944
Weighted-average common shares outstanding:		
Basic	48,895,318	31,514,608
Incremental shares from assumed conversion/exercise:		
Stock warrant	123,671	77,540
Vesting of restricted stock	180,278	81,409
Operating partnership units	2,863,564	2,870,564
Diluted	52,062,831	34,544,121
Earnings per share basic and diluted	\$ 0.24	\$ 0.23

7. Incentive Award Plan

The Company has adopted the BioMed Realty Trust, Inc. and BioMed Realty, L.P. 2004 Incentive Award Plan (the Plan). The Plan provides for the grant to directors, employees and consultants of the Company, and the Operating Partnership (and their respective subsidiaries) of stock options, restricted stock, stock appreciation rights, dividend equivalents, and other incentive awards. The Company has reserved 2,500,000 shares of common stock for issuance pursuant to the Plan, subject to adjustments as set forth in the Plan. Compensation cost for these incentive awards is measured based on the fair value of the award on the grant date and is recognized as expense over the respective vesting period, which is generally two to three years. Fully vested incentive awards may be settled for either cash or stock depending on the Company's preference and the type of award granted. Through June 30, 2006, the Company has only awarded restricted stock grants, which may only be settled for stock.

During the three months ended June 30, 2006 and 2005, the Company granted 11,000 shares of unvested restricted stock with an aggregate value of \$314,000, and 12,000 shares of unvested restricted stock with an aggregate value of \$253,000 under the Plan, respectively. During the six months ended June 30, 2006 and 2005, the Company granted 158,200 shares of unvested restricted stock with an aggregate value of \$4.3 million, and 58,225 shares of unvested restricted stock with an aggregate value of \$1.2 million under the Plan, respectively. Participants are entitled to cash dividends and may vote such awarded shares, but the sale or transfer of such shares is limited during the restricted period. For the three months ended June 30, 2006 and 2005, \$1.0 million and \$825,000, respectively, of stock-based compensation expense was recognized in general and administrative expense. For the six months ended June 30, 2006 and 2005, \$1.8 million and \$1.5 million, respectively, of stock-based compensation expense was recognized in general and administrative expense. As of June 30, 2006, total compensation expense related to unvested awards of \$5.6 million will be recognized in the future over a weighted average period of 1.7 years.

A summary of our unvested restricted stock as of June 30, 2006 and 2005 is presented below:

Weighted
Unvested

	Restricted Shares	Average Grant- Date Fair Value
Unvested Restricted Stock at January 1, 2006	344,492	\$ 17.70
Granted	147,200	27.11
Vested	(153,194)	16.53
Unvested Restricted Stock at March 31, 2006	338,498	\$ 22.32
Granted	11,000	28.53
Vested	(10,000)	21.20
Forefeited	(150)	26.70
Unvested Restricted Stock at June 30, 2006	339,348	\$ 22.55

Table of Contents

	Unvested Restricted Shares	Weighted Average Grant- Date Fair Value
Unvested Restricted Stock at January 1, 2005	336,333	\$ 15.03
Granted	46,225	20.24
Vested	(109,440)	15.03
Unvested Restricted Stock at March 31, 2005	273,118	\$ 15.91
Granted	12,000	21.09
Unvested Restricted Stock at June 30, 2005	285,118	\$ 16.13

8. Segment Information

The Company has previously disclosed reporting segment information for the following geographic areas: Boston, San Francisco, San Diego, Seattle, New York/New Jersey, Pennsylvania, and Maryland based on internal reporting provided to the Chief Operating Decision Maker (CODM) as defined in SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131). SFAS 131 requires an enterprise to disclose financial information about its reportable operating segments, which are those for which financial information is available and is regularly evaluated by the CODM in deciding how to allocate resources and in assessing performance. SFAS 131 requires an enterprise to disclose segment revenues, profit or loss, assets and the basis of measurement and reconciliations of those totals to the corresponding consolidated information provided in the Company's Consolidated Balance Sheets and Consolidated Statements of Income. The Company has historically aggregated its individual properties into larger geographic segments per the guidance in SFAS 131 based on the availability of discrete financial information and similarities in economic characteristics, the homogenous nature of the products, and the types of customers served.

Beginning in the quarter ended June 30, 2006, the Company changed its methods of internal reporting to the CODM due to an organizational restructuring. The CODM now reviews operational data for the one operating segment that qualifies for aggregation reporting under the provisions of SFAS 131 when making decisions regarding resource allocation, capital transactions and the measurement of operating performance. Consequently, financial information by geographic operating segment, as previously provided and reported in the Company's quarterly and annual filings, is no longer required under SFAS 131. Upon such a change in the internal reporting structure of an entity, SFAS 131 requires that the corresponding segment information provided in prior periods be changed to reflect the new reporting segments. Accordingly, segment information reported for the same period in 2005 will not be provided to conform to the new reporting structure of the Company.

9. Property Acquisitions

The Company acquired interests in seven properties during the six months ended June 30, 2006 (in thousands):

Property	Acquisition Date	Investment in Real Estate	Deferred Leasing				Mortgage Note	Mortgage Note	Total Cash
			Above Market	Costs In place	Below Market	Management Fee			
			Lease	Lease	Lease	Fee	Assumed	Premium	Consideration
Fairview Avenue	1/12/2006	\$ 2,703	\$	\$	\$	\$	\$	\$	\$ 2,703
900 Uniqema Boulevard	1/13/2006	4,106	700	310			(1,766)	(236)	3,114

58 Charles Street	4/7/2006	12,033	327	1,043	(178)	13,225
Belward Campus Drive	5/24/2006	200,966				200,966
Shady Grove Road	5/24/2006	226,080				226,080
One Research Way	5/31/2006	8,484				8,484
34175 Ardenwood Boulevard	6/14/2006	13,949		313	10 (74)	14,198

Weighted
average
intangible
amortization

The acquisition of the Belward Campus Drive (Belward) and Shady Grove Road (Shady Grove) properties include provisions whereby the seller could repurchase the properties back from the Company (individually, the Repurchase Option) under specific terms in the future. The Belward Repurchase Option is exercisable at any time over the first three years after the acquisition date, subject to a twelve-month notice provision, at a to be determined repurchase price that would result in a 15% internal rate of return for the Company (taking into consideration all rents paid to the Company). The Shady Grove Repurchase Option is a one-time option at approximately the tenth anniversary of the acquisition date, subject to a twelve-month notice provision, at a repurchase price of approximately \$300.0 million in cash. As the Repurchase Options may be executed only by the seller and will exceed the acquisition prices paid by the Company, no gain will be recorded by the Company unless the Repurchase Options are exercised.

Table of Contents**10. Derivative Financial Instruments**

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. During 2005 and the six months ended June 30, 2006, one such derivative has been used to hedge the variable cash flows associated with existing variable-rate debt. We formally documented the hedging relationship and account for our interest rate swap agreement as a cash flow hedge.

As of June 30, 2006, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes. As of June 30, 2006, our one interest rate swap had a notional amount of \$250.0 million, whereby we pay a fixed rate of 6.4% and receive the difference between the fixed rate and the one-month LIBOR rate plus 225 basis points. This agreement expires on June 1, 2010, and no initial investment was made to enter into this agreement. At June 30, 2006, the interest rate swap agreement had a fair value of \$11.7 million, which is included in other assets. The change in net unrealized gains of \$2.4 million and \$5.7 million, respectively, for the three and six months ended June 30, 2006 for derivatives designated as cash flow hedges is reflected on the consolidated balance sheets in stockholders' equity as accumulated other comprehensive income. An immaterial amount of hedge ineffectiveness on our cash flow hedge due to mismatches in maturity dates of the swap and debt was recognized in other income during the three and six months ended June 30, 2006.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are received on the Company's variable-rate debt. The change in net unrealized gains/losses on cash flow hedges reflects recognition of \$751,000 of net realized gains from accumulated other comprehensive income to interest expense for the six months ended June 30, 2006.

The limited partner in the King of Prussia limited partnership has a put option that would require the Company to purchase the limited partner's interest in the property beginning August 21, 2007 through November 11, 2007 for \$1.8 million less any distributions paid to the limited partner. If the put option is not exercised, then the Company has a call option beginning in May 11, 2008 through August 11, 2008 to purchase the limited partner's interest for \$1.9 million less any distributions paid to the limited partner. If the Company does not exercise the option, then the limited partnership will continue in existence under the terms of the partnership agreement. The net fair value of the put and call options was \$332,000 and \$317,000 at June 30, 2006 and December 31, 2005, respectively, and is recorded as a net accrued liability included in accounts payable and accrued expenses on the consolidated balance sheets. In addition, the Company has recorded a net change in the fair value of the put and call options of \$15,000 and \$26,000 for the six months ended June 30, 2006 and 2005, respectively, which is recorded as a charge to rental operations expense on the consolidated statements of income.

The other member in the Waples limited liability company has a put option that would require the Company to purchase the member's interest in the property at any time after completion of the initial tenant improvements at the

Table of Contents

property. If the put option is not exercised, then the Company has a call option to purchase the other member's interest after the second anniversary of the limited liability company agreement, January 25, 2007, but only while the Waples property is stabilized. If neither option is exercised, then the limited liability company will continue in existence under the terms of the limited liability company agreement. The agreement provides that the put and call option prices will be based on the fair value of the project at that time.

The other member in the Fairview limited liability company has a put option that would require the Company to purchase the member's interest in the property at any time after the first anniversary and before the fifth anniversary of the project completion date. The Company has a call option to purchase the other member's interest at any time after the first anniversary and before the fifth anniversary of the project completion date. If neither option is exercised, then the limited liability company will continue in existence under the terms of the limited liability company agreement. The agreement provides that the put and call option prices will be based on an intrinsic value of the project at that time. At June 30, 2006, the net fair value of the put and call options were approximately equal to each member's equity investment.

The Company has the right to purchase the other member's interest or sell its own interest (collectively, the Buy-Sell Option) in the Ardenwood limited liability company at any time after the later of (1) the second anniversary of the date that the related property is at least ninety percent leased with remaining lease terms of at least five years and (2) the date that a term loan is obtained pursuant to the agreement. If the Buy-Sell Option is exercised by the Company, the other member has the right to determine whether to acquire the Company's membership interest or to sell its own membership interest to the Company. The agreement provides that the Buy-Sell option price will be based on the fair value of the assets at that time.

11. Subsequent Events

On July 7, 2006, the Company completed the acquisition of a property located at 3200 Walnut Street in Boulder, Colorado. The property consists of four two-story office/laboratory buildings totaling 149,984 square feet. The total purchase price of approximately \$45.0 million was primarily financed through borrowings on the Company's unsecured revolving credit facility.

On July 11, 2006, the Company completed the acquisition of a property located at 7777 Gateway Boulevard, Newark, California. The property consists of ten two and three-story office buildings totaling 1,432,324 square feet. The total purchase price of approximately \$214.0 million was primarily financed through borrowings on the Company's unsecured revolving credit facility. In connection with the acquisition, the Company entered into ten leases with Sun Microsystems for the property. The leases terminate in phases over an 18-month period from the closing of the acquisition and are cancelable at the tenant's option with 90 days notice. On August 7, 2006, Sun Microsystems provided the Company notice that it would cancel six of the leases, totaling 835,021 square feet, as of November 6, 2006.

On July 20, 2006, the Company completed the acquisition of a property located at 2-30 Spring Mill Drive, Malvern, Pennsylvania. The property consists of one single-story office/laboratory science building totaling 76,389 square feet. The total purchase price of approximately \$9.4 million was primarily financed through borrowings on the Company's unsecured revolving credit facility.

Table of Contents

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

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise, and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, estimates or anticipates or the negative of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategy, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate); adverse economic or real estate developments in the life science industry or our target markets; risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments; failure to manage effectively our growth and expansion into new markets, or to complete or integrate acquisitions successfully; risks and uncertainties affecting property development and construction; risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets; potential liability for uninsured losses and environmental contamination; risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, and possible adverse changes in tax and environmental laws; and risks associated with our dependence on key personnel whose continued service is not guaranteed. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this report. In addition, we discussed a number of material risks in our annual report on Form 10-K for the year ended December 31, 2005. Those risks continue to be relevant to our performance and financial condition. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Overview

We operate as a REIT focused on acquiring, developing, owning, leasing and managing laboratory and office space for the life science industry. Our tenants primarily include biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other entities involved in the life science industry. Our current properties and our primary acquisition targets are located in markets with well established reputations as centers for scientific research, including Boston, San Diego, San Francisco, Seattle, Maryland, Pennsylvania and New York/New Jersey.

As of June 30, 2006, the Company owned or had interests in 47 properties, located principally in Boston, San Diego, San Francisco, Seattle, Maryland, Pennsylvania and New York/New Jersey, consisting of 71 buildings with approximately 5.9 million rentable square feet of laboratory and office space, which was approximately 91.4% leased to 94 tenants. Of the approximately 505,000 square feet of unleased space, 344,000 square feet, or 68.2 % of our unleased square footage, was under redevelopment. The Company also owned undeveloped land that we estimate can support up to 1,299,000 rentable square feet of laboratory and office space.

We were formed on April 30, 2004 and commenced operations on August 11, 2004, after completing our initial public offering.

Table of Contents

Factors Which May Influence Future Operations

Our corporate strategy is to continue to focus on acquiring, developing, owning, leasing and managing laboratory and office space for the life science industry. As of June 30, 2006, our property portfolio was 91.4% leased to 94 tenants. Approximately 3.3% of our leased square footage expires during the remainder of 2006 and approximately 9.9% of our leased square footage expires during 2007. Our leasing strategy focuses on leasing currently vacant space and negotiating renewals for expiring leases and identifying new tenants or existing tenants seeking additional space to occupy the spaces for which we are unable to negotiate such renewals. Additionally, we will seek to lease space that is currently under a master lease arrangement at our King of Prussia property, which will expire in 2008.

The success of our leasing and development strategy will depend upon the general economic conditions in the United States and in our target markets of Boston, San Diego, San Francisco, Seattle, Maryland, Pennsylvania, New York/New Jersey and research parks near or adjacent to universities.

Critical Accounting Policies

A more complete discussion of our critical accounting policies can be found in our annual report on Form 10-K for the year ended December 31, 2005.

On January 1, 2006, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). SFAS 123(R) requires that all share-based payments to employees be recognized in the income statement based on their fair values. The fair-value is recorded based on the market value of the common stock on the grant date and is amortized to general and administrative expense over the respective vesting periods. Prior to the adoption of SFAS 123(R), we followed SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148. SFAS 123 required that compensation expense be recorded for the fair-value of restricted stock granted to employees and non-employee directors. The treatment of restricted stock grants under SFAS 123(R) does not materially differ from the treatment under SFAS 123.

We adopted SFAS 123(R) using a modified prospective application as permitted under SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding as of the beginning of the fiscal year of adoption. The impact of adopting SFAS 123(R) on all previously granted awards approximates the impact of using SFAS 123, therefore no change in the amount recognized for these awards in the current period is necessary.

Results of Operations

Comparison of Three Months Ended June 30, 2006 to the Three Months Ended June 30, 2005

Rental Revenues. Rental revenues increased \$16.6 million to \$36.6 million for the three months ended June 30, 2006 compared to \$20.0 million for the three months ended June 30, 2005. The increase was primarily due to acquisitions during 2005 and 2006. In addition, same property rental revenues increased \$435,000, or 3.0%, for the three months ended June 30, 2006 compared to the same period in 2005.

Tenant Recoveries. Revenues from tenant reimbursements increased \$4.2 million to \$12.8 million for the three months ended June 30, 2006 compared to \$8.6 million for the three months ended June 30, 2005. The increase was primarily due to acquisitions during 2005 and 2006. In addition, same property tenant recoveries increased \$160,000, or 2.2%, for the three months ended June 30, 2006 compared to the same period in 2005.

Other Income. Other income was \$64,000 for the three months ended June 30, 2006 compared to \$0 for the three months ended June 30, 2005.

Table of Contents

Rental Operations Expense. Rental operations expenses increased \$2.9 million to \$9.6 million for the three months ended June 30, 2006 compared to \$6.7 million for the three months ended June 30, 2005. The increase was primarily due to the inclusion of rental property operations expenses for properties acquired in 2005 and 2006, and an increase in same property rental operations expense of \$307,000, or 4.8%, for the three months ended June 30, 2006 compared to the same period in 2005.

Real Estate Tax Expense. Real estate tax expense increased \$2.1 million to \$4.6 million for the three months ended June 30, 2006 compared to \$2.5 million for the three months ended June 30, 2005. The increase was primarily due to the inclusion of property taxes for the properties acquired in 2005 and 2006, as well as the increase in same property real estate tax expense of \$69,000, or 3.9%, for the three months ended June 30, 2006 compared to the same period in 2005.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$6.2 million to \$14.7 million for the three months ended June 30, 2006 compared to \$8.5 million for the three months ended June 30, 2005. The increase was primarily due to the inclusion of depreciation and amortization expense for the properties acquired in 2005 and 2006, as well as the increase in same property depreciation expense primarily related to completed tenant improvements in the current year of \$536,000, or 8.5%, for the three months ended June 30, 2006 compared to the same period in 2005.

General and Administrative Expenses. General and administrative expenses increased \$1.5 million to \$4.2 million for the three months ended June 30, 2006 compared to \$2.7 million for the three months ended June 30, 2005. The increase was primarily due to the hiring of additional personnel and higher consulting and professional fees associated with corporate governance and Sarbanes-Oxley Section 404 implementation.

Interest Income. Interest income increased \$316,000 to \$435,000 for the three months ended June 30, 2006 compared to \$119,000 for the three months ended June 30, 2005. This is primarily due to interest earned on funds available for investment during the quarter, and an increase in interest rates for the three months ended June 30, 2006 versus the three months ended June 30, 2005.

Interest Expense. Interest expense increased \$2.5 million to \$9.3 million for the three months ended June 30, 2006 compared to \$6.8 million for the three months ended June 30, 2005. The increase in interest expense is a result of more overall debt outstanding during 2006 partially offset by a reduction of interest expense in 2006 due to the accretion of debt premium, which decreased interest expense by \$615,000 compared to \$390,000 in 2005, and capitalized interest, which decreased interest expense by \$335,000 compared to \$150,000 in 2005.

Minority Interests in Consolidated Partnerships. Minority interest in consolidated partnerships decreased \$19,000 to \$46,000 for the three months ended June 30, 2006 compared to \$65,000 for the three months ended June 30, 2005. The decrease is a result of a decrease in the net loss of the King of Prussia limited partnership offset by the allocation of the net income of our Ardenwood property.

Minority Interests in Operating Partnership. Minority interests in operating partnerships increased (\$272,000) to (\$402,000) for the three months ended June 30, 2006 compared to (\$130,000) for the three months ended June 30, 2005. The increase in minority interest is related to the increase in net income for the three months ended June 30, 2006, partially offset by a decrease in the percentage of ownership of the operating partnership unit holders due to our follow-on common stock offerings in June 2005 and May 2006 and corresponding decreases in the income allocable to minority interests for the operating partnership.

Comparison of Six Months Ended June 30, 2006 to the Six Months Ended June 30, 2005

Rental Revenues. Rental revenues increased \$33.4 million to \$67.7 million for the six months ended June 30, 2006 compared to \$34.3 million for the six months ended June 30, 2005. The increase was primarily due to acquisitions during 2005 and 2006. In addition, same property rental revenues increased \$699,000, or 2.5%, for the six months ended June 30, 2006 compared to the same period in 2005, due primarily to income from tenants where redevelopment activity had concluded.

Tenant Recoveries. Revenues from tenant reimbursements increased \$9.6 million to \$25.4 million for the six months ended June 30, 2006 compared to \$15.8 million for the six months ended June 30, 2005. The increase was primarily due to acquisitions during 2005 and 2006. In addition, same property tenant recoveries increased \$396,000, or 2.8%, for the six months ended June 30, 2006 compared to the same period in 2005.

Table of Contents

Other Income. Other income decreased \$2.8 million to \$70,000 for the six months ended June 30, 2006 compared to \$2.9 million for the six months ended June 30, 2005. The balance for the six months ended June 30, 2005 is comprised of a gain on early termination of lease of a portion of the Nektar lease at our Industrial Road property of \$2.9 million.

Rental Operations Expense. Rental operations expenses increased \$6.1 million to \$19.2 million for the six months ended June 30, 2006 compared to \$13.1 million for the six months ended June 30, 2005. The increase was primarily due to the inclusion of rental property operations expenses for properties acquired in 2005 and 2006, as well as an increase in same property rental operations expense of \$300,000, or 2.3%, for the six months ended June 30, 2006 compared to the same period in 2005.

Real Estate Tax Expense. Real estate tax expense increased \$4.5 million to \$8.8 million for the six months ended June 30, 2006 compared to \$4.3 million for the six months ended June 30, 2005. The increase was primarily due to the inclusion of property taxes for the properties acquired in 2005 and 2006, as well as the increase in same property real estate tax expense of \$131,000, or 3.8%, for the six months ended June 30, 2006 compared to the same period in 2005.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$13.4 million to \$28.1 million for the six months ended June 30, 2006 compared to \$14.7 million for the six months ended June 30, 2005. The increase was primarily due to the inclusion of depreciation and amortization expense for the properties acquired in 2005 and 2006, as well as the increase in same property depreciation expense primarily related to completed tenant improvements in the current year of \$535,000, or 4.4%, for the six months ended June 30, 2006 compared to the same period in 2005.

General and Administrative Expenses. General and administrative expenses increased \$3.4 million to \$8.6 million for the six months ended June 30, 2006 compared to \$5.2 million for the six months ended June 30, 2005. The increase was primarily due to the hiring of additional personnel and higher consulting and professional fees associated with corporate governance and Sarbanes-Oxley Section 404 implementation.

Interest Income. Interest income increased \$415,000 to \$595,000 for the six months ended June 30, 2006 compared to \$180,000 for the six months ended June 30, 2005. This is primarily due to interest earned on funds available for investment, and an increase in interest rates for the six months ended June 30, 2006 versus the six months ended June 30, 2005.

Interest Expense. Interest expense increased \$8.8 million to \$17.0 million for the six months ended June 30, 2006 compared to \$8.2 million for the six months ended June 30, 2005. The increase in interest is a result of more overall debt outstanding and higher interest rates during 2006 partially offset by a reduction of interest expense in 2006 due to the accretion of debt premium, which decreased interest expense by \$1,220,000 compared to \$650,000 in 2005, and capitalized interest which decreased interest by \$571,000 compared to \$171,000 in 2005.

Minority Interests in Consolidated Partnerships. Minority interest in consolidated partnerships decreased \$74,000 to \$100,000 for the six months ended June 30, 2006 compared to \$174,000 for the six months ended June 30, 2005. The decrease is a result of a decrease in the net loss of the King of Prussia limited partnership offset by the allocation of the net income of the Ardenwood property.

Minority Interests in Operating Partnership. Minority interests in operating partnerships increased (\$10,000) to (\$678,000) for the six months ended June 30, 2006 compared to (\$668,000) for the six months ended June 30, 2005. The increase in minority interest is related to the increase in net income for the six months ended June 30, 2006, partially offset by a decrease in the percentage of ownership of the operating partnership unit holders due to our follow-on common stock offerings in June 2005 and May 2006 and corresponding decreases in the income allocable to minority interests for the operating partnership.

Table of Contents**Cash Flows*****Comparison of Six Months Ended June 30, 2006 to Six Months Ended June 30, 2005***

	Six Months Ended June 30,		
	2006	2005	Change
	(in thousands)		
Net cash provided by operating activities	\$ 44,747	\$ 20,485	\$ 24,262
Net cash used in investing activities	(489,968)	(483,619)	(6,349)
Net cash provided by financing activities	448,002	548,279	(100,277)
Ending cash balance	23,093	113,014	(89,921)

Cash and cash equivalents were \$23.1 million and \$113.0 million, respectively, at June 30, 2006 and June 30, 2005.

Net cash provided by operating activities increased \$24.2 million to \$44.7 million for the six months ended June 30, 2006 compared to \$20.5 million for the six months ended June 30, 2005. The increase was primarily due to the increases in operating income before depreciation and amortization, and changes in other operating assets and liabilities.

Net cash used in investing activities increased \$6.4 million to \$490.0 million for the six months ended June 30, 2006 compared to \$483.6 million for the six months ended June 30, 2005. The increase was primarily due to an increase of cash paid and held in escrow for acquisitions, partially offset by a decrease in cash paid to acquire interests in real estate.

Net cash provided by financing activities decreased \$100.3 million to \$448.0 million for the six months ended June 30, 2006 compared to \$548.3 million for the six months ended June 30, 2005. The decrease was primarily due to the secured term loan proceeds received in 2005, partially offset by secured bridge loan proceeds received in 2006, and a decrease in common stock offering proceeds from our follow-on offerings.

Funds from Operations

We present funds from operations, or FFO, because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. We compute FFO in accordance with standards established by the Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, in its March 1995 White Paper (as amended in November 1999 and April 2002). As defined by NAREIT, FFO represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. Our computation may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

Table of Contents

The following table provides the calculation of our FFO and a reconciliation to net income (in thousands, except per share amounts):

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2005
Net income	\$ 7,158	\$ 1,440
Adjustments		
Minority interests in operating partnership	402	130
Depreciation and amortization real estate assets	14,734	8,496
Funds from operations	\$ 22,294	\$ 10,066
Funds from operations per share diluted	\$ 0.41	\$ 0.29
Weighted-average common shares outstanding diluted	54,534,393	34,893,367
	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2005
Net income	\$ 11,632	\$ 7,276
Adjustments		
Minority interests in operating partnership	678	668
Depreciation and amortization real estate assets	28,115	14,677
Funds from operations	\$ 40,425	\$ 22,621
Funds from operations per share diluted	\$ 0.78	\$ 0.65
Weighted-average common shares outstanding diluted	52,062,831	34,544,121

Table of Contents

Liquidity and Capital Resources

Our short-term liquidity requirements consist primarily of funds to pay for operating expenses and other expenditures directly associated with our properties, including:

interest expense and scheduled principal payments on outstanding indebtedness,

general and administrative expenses,

future distributions expected to be paid to our stockholders, and

capital expenditures, tenant improvements and leasing commissions.

We expect to satisfy our short-term liquidity requirements through our existing working capital and cash provided by our operations. Our rental revenue, provided by our leases, and minimal unreimbursed operating expenses generally provide cash inflows to meet our debt service obligations, pay general and administrative expenses, and fund regular distributions.

Our long-term liquidity requirements consist primarily of funds to pay for scheduled debt maturities, renovations, expansions and other non-recurring capital expenditures that need to be made periodically and the costs associated with acquisitions of properties that we pursue. We expect to satisfy our long-term liquidity requirements through our existing working capital, cash provided by operations, long-term secured and unsecured indebtedness, the issuance of additional equity or debt securities and the use of net proceeds from the disposition of non-strategic assets. We also expect to use funds available under our unsecured revolving credit facility to finance acquisition and development activities and capital expenditures on an interim basis.

In October 2005, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission, which was declared effective in December 2005. The universal shelf registration statement may permit us, from time to time, to offer and sell up to \$500 million of debt securities, common stock, preferred stock, warrants and other securities. However, there can be no assurance that we will be able to complete any such offerings of securities. In June 2006, we completed a follow-on common stock offering of 10,436,250 shares at \$28.65 per share, resulting in gross proceeds of \$299.0 million. As of June 30, 2006, the remaining amount available under the universal shelf registration statement was approximately \$201.0 million. In addition, under the new rules adopted by the Securities and Exchange Commission regarding registration and offering procedures, as of June 30, 2006, we met the definition of a well-known seasoned issuer under Rule 405 of the Securities Act of 1933, as amended. As a result, we are permitted to file an automatic shelf registration statement that will be immediately effective upon filing. We may elect to use an automatic shelf registration statement to register additional debt and equity securities to the extent necessary or advisable to meet our liquidity needs.

Our total market capitalization at June 30, 2006 was approximately \$2.5 billion based on the market closing price of our common stock at June 30, 2006 of \$29.94 per share (assuming the conversion of 2,863,564 operating partnership units into common stock) and our debt outstanding was approximately \$705.2 million (exclusive of accounts payable and accrued expenses). As a result, our debt to total market capitalization ratio was approximately 28.2% at June 30, 2006. Our board of directors adopted a policy of limiting our indebtedness to approximately 60% of our total market capitalization. However, our board of directors may from time to time modify our debt policy in light of current economic or market conditions including, but not limited to, the relative costs of debt and equity capital, market conditions for debt and equity securities and fluctuations in the market price of our common stock. Accordingly, we may increase or decrease our debt to market capitalization ratio beyond the limit described above.

At June 30, 2006, we had \$60.8 million in outstanding borrowings on our \$500.0 million unsecured revolving credit facility, \$250.0 million in outstanding borrowings on our secured term loan, and \$150.0 million in outstanding borrowings on our secured bridge loan.

Table of Contents

Off Balance Sheet Arrangements

As of June 30, 2006, we had an investment in McKellar Court, L.P., which owns a single tenant occupied property located in San Diego. McKellar Court is a variable interest entity (VIE) as defined in FIN 46(R); however, we are not the primary beneficiary. The limited partner is also the only tenant in the property and will bear a disproportionate amount of any losses. We, as the general partner, will receive 21% of the operating cash flows and 75% of the gains upon sale of the property. We account for our general partner interest using the equity method. Significant accounting policies used by the unconsolidated partnership that owns this property are similar to those used by us. At June 30, 2006, our share of the debt related to this investment was equal to approximately \$2.2 million. The debt has a maturity date of January 1, 2010 and bears interest at 8.56%. The assets and liabilities of McKellar Court were \$17.0 million and \$11.1 million, respectively, at June 30, 2006, and were \$17.1 million and \$11.0 million, respectively, at December 31, 2005. Our equity in net income of McKellar Court was \$22,000 and \$20,000 for the three months ended June 30, 2006 and 2005, respectively, and \$42,000 and \$71,000 for the six months ended June 30, 2006 and 2005, respectively.

We have been determined to be the primary beneficiary in three other variable interest entities, which we consolidate.

Cash Distribution Policy

We elected to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 2004. To qualify as a REIT, we must meet a number of organizational and operational requirements, including the requirement that we distribute currently at least 90% of our ordinary taxable income to our stockholders. It is our intention to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal, state or local income taxes on taxable income we distribute currently (in accordance with the Code and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal, state and local income taxes at regular corporate rates and may not be able to qualify as a REIT for subsequent tax years. Even if we qualify as a REIT for federal income tax purposes, we may be subject to certain state and local taxes on our income and to federal income and excise taxes on our undistributed taxable income, *i.e.*, taxable income not distributed in the amounts and in the time frames prescribed by the Code and applicable regulations thereunder.

From our initial public offering through June 30, 2006, we have declared aggregate dividends on our common stock and distributions on our operating partnership units of \$2.0797 per common share and unit, representing two quarterly dividends of \$0.29 in 2006, five full quarterly dividends of \$0.27 in 2005 and the fourth quarter of 2004 and a partial third quarter 2004 dividend of \$0.1497 per common share and unit.

Inflation

Some of our leases contain provisions designed to mitigate the adverse impact of inflation. These provisions generally increase rental rates during the terms of the leases either at fixed rates or indexed escalations (based on the Consumer Price Index or other measures). We may be adversely impacted by inflation on the leases that do not contain indexed escalation provisions. In addition, most of our leases require the tenant to pay an allocable share of operating expenses, including common area maintenance costs, real estate taxes and insurance. This may reduce our exposure to increases in costs and operating expenses resulting from inflation, assuming our properties remain leased and tenants fulfill their obligations to reimburse us for such expenses.

Our unsecured revolving credit facility and our secured bridge loan bear interest at a variable rate, which will be influenced by changes in short-term interest rates, and will be sensitive to inflation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments depend upon prevailing market interest rates. Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which we believe we are exposed is interest rate risk. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control contribute to interest rate risk.

Table of Contents

As of June 30, 2006, our consolidated debt consisted of 14 fixed-rate notes with a carrying value of \$244.4 million (including \$13.9 million of unamortized premium) and a weighted-average effective interest rate of 5.06%, our revolving credit facility with an outstanding balance of \$60.8 million at a weighted average interest rate of 6.54%, our secured term loan with an outstanding balance of \$250.0 million, and our secured bridge loan with an outstanding balance of \$150.0 million at an interest rate of 6.70%. We have entered into an interest rate swap agreement, which has the effect of fixing the interest rate on the secured term loan at 6.4%. To determine fair value, the fixed-rate debt is discounted at a rate based on an estimate of current lending rates, assuming the debt is outstanding through maturity and considering the notes collateral. At June 30, 2006, the fair value of the fixed-rate debt was estimated to be \$232.0 million compared to the net carrying value of \$244.4 million (including \$13.9 million of premium). We do not believe that the interest rate risk represented by our fixed rate debt was material as of June 30, 2006 in relation to total assets of \$1.8 billion and equity market capitalization of \$1.8 billion of our common stock and operating units. At June 30, 2006, the fair value of the debt of our investment in unconsolidated partnership approximated the carrying value.

Based on our revolving credit facility and secured bridge loan balance at June 30, 2006, a 1% change in interest rates would change our interest costs by approximately \$2.1 million per year. This amount was determined by considering the impact of hypothetical interest rates on our financial instruments. This analysis does not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of the magnitude discussed above, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assume no changes in our financial structure.

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 swaps, caps and treasury locks in order to mitigate our interest rate risk on a related financial instrument. The use of these types of instruments to hedge our exposure to changes in interest rates carries additional risks, including counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. To limit counterparty credit risk we will seek to enter into such agreements with major financial institutions with high credit ratings. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging activities. We do not enter into such contracts for speculative or trading purposes.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Also, we have an investment in an unconsolidated entity. As we manage this entity, our disclosure controls and procedures with respect to such entity are essentially consistent with those we maintain with respect to our consolidated entities.

As required by Securities and Exchange Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any legal proceedings nor, to our knowledge, is any legal proceeding threatened against us that would have a material adverse effect on our financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

Investing in our common stock involves risks. Our Annual Report on Form 10-K for the year ended December 31, 2005 includes a detailed discussion of our risk factors under the heading Part I, Item 1A. Risk Factors. Set forth below are certain changes from the risk factors previously disclosed in our Annual Report on Form 10-K as a result of certain events that occurred during the second quarter of 2006, including the closing of the acquisition of the Human Genome Sciences, Inc. headquarters and manufacturing facilities, the related \$150.0 million secured bridge loan with KeyBank National Association, the completion of our follow-on common stock offering of 10,436,250 shares, the amendment of our unsecured revolving credit facility and our secured term loan, and the obtaining of additional earthquake insurance. You should carefully consider the risk factors discussed in our Annual Report on Form 10-K as well as the other information in this report, before deciding whether to invest in shares of our common stock. The occurrence of any of the risks discussed in the Annual Report on Form 10-K or this report could harm our business, financial condition, results of operations or growth prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Properties, Our Business and Our Growth Strategy

Because we lease our properties to a limited number of tenants, and to the extent we depend on a limited number of tenants in the future, the inability of any single tenant to make its lease payments could adversely affect our business and our ability to make distributions to our stockholders.

As of June 30, 2006, we had 94 tenants in 47 properties. Two of our tenants, Human Genome Sciences and Vertex Pharmaceuticals, represented 24.2% and 14.3%, respectively, of our annualized base rent for the quarter ended June 30, 2006, and 15.8% and 10.0%, respectively, of our total leased rentable square footage. While we evaluate the creditworthiness of our tenants by reviewing available financial and other pertinent information, there can be no assurance that any tenant will be able to make timely rental payments or avoid defaulting under its lease. If a tenant defaults, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment. Because we depend on rental payments from a limited number of tenants, the inability of any single tenant to make its lease payments could adversely affect us and our ability to make distributions to our stockholders.

The geographic concentration of our properties in Boston, Maryland and California makes our business particularly vulnerable to adverse conditions affecting these markets.

Eleven of our 47 properties are located in the Boston area. As of June 30, 2006, these properties represented 29.8% of our annualized base rent and 22.3% of our total rentable square footage. Four of our 47 properties are located in Maryland. As of June 30, 2006, these properties represented 25.8% of our annualized base rent and 18.6% of our total rentable square footage. In addition, 18 of our 47 properties are located in California, with nine in San Diego and nine in San Francisco. As of June 30, 2006, these properties represented 21.4% of our annualized base rent and 27.1% of our total rentable square footage. Because of this concentration in three geographic regions, we are particularly vulnerable to adverse conditions affecting Boston, Maryland and California, including general economic conditions, increased competition, a downturn in the local life science industry, real estate conditions, terrorist attacks, earthquakes (with respect to California) and other natural disasters occurring in these regions. In addition, we cannot assure you that these markets will continue to grow or remain favorable to the life science industry. The performance of the life science industry and the economy in general in these geographic markets may affect occupancy, market rental rates and expenses, and thus may affect our performance and the value of our properties. We are also subject to greater risk of loss from earthquakes because of our properties' concentration in California. The close proximity of our nine properties in San Francisco to a fault line makes them more vulnerable to earthquakes than properties in many other parts of the country.

Table of Contents

Risks Related to the Real Estate Industry

Uninsured and underinsured losses could adversely affect our operating results and our ability to make distributions to our stockholders.

We carry comprehensive general liability, fire and extended coverage, terrorism and loss of rental income insurance covering all of our properties under a blanket portfolio policy, with the exception of property insurance on our McKellar Court, Science Center Drive, Belward Campus Drive and Shady Grove Road locations, which is carried directly by the tenants in accordance with the terms of their respective leases. In addition, we carry workers compensation coverage for injury to our employees. We believe the policy specifications and insured limits are adequate given the relative risk of loss, cost of the coverage and standard industry practice. We also carry environmental remediation insurance for some of our properties. This insurance, subject to certain exclusions and deductibles, covers the cost to remediate environmental damage caused by unintentional future spills or the historic presence of previously undiscovered hazardous substances, as well as third-party bodily injury and property damage claims related to the release of hazardous substances. We intend to carry similar insurance with respect to future acquisitions as appropriate. A substantial portion of our properties are located in areas subject to earthquake loss, such as San Diego and San Francisco, California and Seattle, Washington. Although we presently carry earthquake insurance on our properties, the amount of earthquake insurance coverage we carry may not be sufficient to fully cover losses from earthquakes. In addition, we may discontinue earthquake, terrorism or other insurance, or may elect not to procure such insurance, on some or all of our properties in the future if the cost of the premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss.

If we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

Risks Related to Our Organizational Structure

Conflicts of interest could result in our management acting other than in our stockholders' best interests.

Our executive officers and directors beneficially own 5.2% of our common stock and exercise substantial influence over our business and, as a result, they may delay, defer or prevent us from taking actions that would be beneficial to our other stockholders. As of June 30, 2006, our executive officers, directors and entities affiliated with them beneficially owned an aggregate of 469,583 shares of our common stock and units which may be exchanged for 2,673,172 shares of our common stock, representing a total of approximately 5.2% of our outstanding common stock. Consequently, our executive officers and directors have substantial influence over us and could exercise their influence in a manner that may not be in the best interests of our stockholders.

Risks Related to Our Capital Structure

Debt obligations expose us to increased risk of property losses and may have adverse consequences on our business operations and our ability to make distributions.

We have used and will continue to use debt to finance property acquisitions. Our use of debt may have adverse consequences, including the following:

Required payments of principal and interest may be greater than our cash flow from operations.

We may be forced to dispose of one or more of our properties, possibly on disadvantageous terms, to make payments on our debt.

If we default on our debt obligations, the lenders or mortgagees may foreclose on our properties that secure those loans. Further, if we default under a mortgage loan, we will automatically be in default on any other loan that has cross-default provisions, and we may lose the properties securing all of these loans.

Table of Contents

A foreclosure on one of our properties will be treated as a sale of the property for a purchase price equal to the outstanding balance of the secured debt. If the outstanding balance of the secured debt exceeds our tax basis in the property, we would recognize taxable income on foreclosure without realizing any accompanying cash proceeds to pay the tax (or to make distributions based on REIT taxable income).

We may not be able to refinance or extend our existing debt. If we cannot repay, refinance or extend our debt at maturity, in addition to our failure to repay our debt, we may be unable to make distributions to our stockholders at expected levels or at all.

Even if we are able to refinance or extend our existing debt, the terms of any refinancing or extension may not be as favorable as the terms of our existing debt. If the refinancing involves a higher interest rate, it could adversely affect our cash flow and ability to make distributions to stockholders.

As of June 30, 2006, we had outstanding mortgage indebtedness of \$230.5 million, excluding \$13.9 million of debt premium, and \$250.0 million of borrowings under our secured term loan facility, secured by 14 of our properties, as well as \$2.2 million associated with our unconsolidated partnership. We had \$150.0 of borrowings under our bridge loan, secured by our Shady Grove Road property, and \$60.8 million outstanding under our \$500.0 million unsecured revolving credit facility. We expect to incur additional debt in connection with future acquisitions. Our organizational documents do not limit the amount or percentage of debt that we may incur.

Our \$150.0 million secured bridge loan matures in November 2006. To the extent we are unable to obtain permanent financing to replace the bridge loan, and we are unable to repay the bridge loan, the lender will have the right to foreclose on our Shady Grove Road property, which could harm our financial condition, results of operations and ability to make distributions to you.

Our credit facilities include restrictive covenants relating to our operations, which could limit our ability to respond to changing market conditions and our ability to make distributions to our stockholders.

Our credit facilities impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. For example, we are subject to a maximum leverage ratio of 60% during the terms of the loans, which could reduce our ability to incur additional debt and consequently reduce our ability to make distributions to our stockholders. Our credit facilities also contain limitations on our ability to make distributions to our stockholders in excess of those required to maintain our REIT status. Specifically, our credit facilities limit distributions to 95% of funds from operations, but not less than the minimum necessary to enable us to meet our REIT income distribution requirements. In addition, our credit facilities contain covenants that, among other things, limit our ability to further mortgage our properties or reduce insurance coverage, and that require us to maintain specified levels of net worth. These or other limitations may adversely affect our flexibility and our ability to achieve our operating plans.

Risks Related to Our REIT Status

The number of shares of our common stock available for future sale could adversely affect the market price of our common stock.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. As of June 30, 2006, we had outstanding 57,228,732 shares of our common stock, as well as units in our operating partnership which may be exchanged for 2,863,564 shares of our common stock. In addition, as of June 30, 2006, we had reserved an additional 1,880,018 shares of common stock for future issuance under our incentive award plan and have a warrant outstanding to Raymond James & Associates, Inc., issued in connection with our initial public offering, to purchase 270,000 shares of our common stock at \$15.00 per share, the initial public offering price.

Furthermore, in October 2005, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission, which was declared effective in December 2005. The universal shelf registration statement may permit us, from time to time, to offer and sell up to \$500.0 million of debt securities, common stock, preferred stock, warrants and other securities. Approximately \$201.0 million of securities remains available for

Table of Contents

issuance under our universal shelf registration statement. In addition, under the new rules adopted by the Securities and Exchange Commission regarding registration and offering procedures, as of June 30, 2006, we met the definition of a well-known seasoned issuer under Rule 405 of the Securities Act of 1933, as amended. As a result, we are permitted to file an automatic shelf registration statement that will be immediately effective upon filing. We may elect to use an automatic shelf registration statement to register additional debt and equity securities to the extent necessary or advisable to meet our liquidity needs.

Any of the following could have an adverse effect on the market price of our common stock:

sales of substantial amounts of shares of our common stock in the public market, or the perception that such sales might occur,

the exchange of units for common stock,

the exercise of any options granted to certain directors, executive officers and other employees under our incentive award plan,

issuances of preferred stock with liquidation or distribution preferences, and

other issuances of our common stock.

Additionally, the existence of units, options and shares of our common stock reserved for issuance upon exchange of units may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities. In addition, future sales of shares of our common stock may be dilutive to existing stockholders.

From time to time we also may issue shares of our common stock or operating partnership units in connection with property, portfolio or business acquisitions. We may grant additional demand or piggyback registration rights in connection with these issuances. Sales of substantial amounts of our common stock, or the perception that these sales could occur, may adversely affect the prevailing market price of our common stock or may adversely affect the terms upon which we may be able to obtain additional capital through the sale of equity securities.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of stockholders was held on May 19, 2006. The only matters voted upon at our annual meeting consisted of the election of seven of our directors to serve until the next annual meeting of stockholders and until their successors are duly elected and qualify, and the ratification of the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2006. Stockholders elected the directors at our annual meeting by the following vote:

	Votes For	Votes Withheld
Alan D. Gold	42,756,876	729,458
Barbara R. Cambon	43,460,046	26,288
Edward A. Dennis, Ph.D.	43,460,628	25,706
Gary A. Kreitzer	43,411,436	74,898
Mark J. Riedy, Ph.D.	43,370,124	116,210
Theodore D. Roth	43,461,053	25,281
M. Faye Wilson	43,458,877	27,457

Table of Contents

Stockholders ratified the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2006 (43,351,608 votes for, 128,163 against and 6,563 abstained).

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Description of Exhibit

Agreement of Purchase and Sale, dated as of May 2, 2006, between Human Genome Sciences, Inc. and BioMed Realty, L.P.(1)

Lease Agreement, dated as of May 24, 2006, between BMR-Belward Campus Drive LSM LLC and Human Genome Sciences, Inc. (1)

Lease Agreement, dated as of May 24, 2006, between BMR-Shady Grove Road HQ LLC and Human Genome Sciences, Inc. (2)

Secured Bridge Loan Agreement, dated as of May 24, 2006, by and among BioMed Realty, L.P., KeyBank National Association, as Administrative Agent, and certain lenders party thereto.(2)

Form of Note under Secured Bridge Loan Agreement.(2)

First Amendment to Secured Bridge Loan Agreement, dated as of July 5, 2006, by and among BioMed Realty, L.P. and KeyBank National Association, individually and as Administrative Agent.

First Amended and Restated Unsecured Credit Agreement, dated as of June 28, 2006, by and among BioMed Realty, L.P., KeyBank National Association, as Administrative Agent, and certain lenders party thereto.(3)

First Amendment to Secured Term Loan Agreement, dated as of June 28, 2006, by and among BioMed Realty, L.P., KeyBank National Association, as Administrative Agent, and certain lenders party thereto.(3)

Purchase and Sale Agreement, dated as of June 7, 2006, between Sun Microsystems, Inc. and BioMed Realty, L.P.(4)

First Amendment to Purchase and Sale Agreement, dated as of June 22, 2006, between Sun Microsystems, Inc. and BioMed Realty, L.P.(4)

Second Amendment to Purchase and Sale Agreement, dated as of June 23, 2006, between Sun Microsystems, Inc. and BioMed Realty, L.P.(4)

Form of Lease between Sun Microsystems, Inc. and BMR-Gateway Boulevard LLC.(4)

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Certifications 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.

- (1) Incorporated herein by reference to BioMed Realty

Trust Inc. s
Current Report
on Form 8-K
filed with the
Securities and
Exchange
Commission on
May 5, 2006.

(2) Incorporated
herein by
reference to
BioMed Realty
Trust Inc. s
Current Report
on Form 8-K
filed with the
Securities and
Exchange
Commission on
May 26, 2006.

(3) Incorporated
herein by
reference to
BioMed Realty
Trust Inc. s
Current Report
on Form 8-K
filed with the
Securities and
Exchange
Commission on
July 3, 2006.

(4) Incorporated
herein by
reference to
BioMed Realty
Trust Inc. s
Current Report
on Form 8-K
filed with the
Securities and
Exchange
Commission on
July 17, 2006.

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.

BioMed Realty Trust, Inc.

Dated: August 7, 2006

/s/ ALAN D. GOLD

Alan D. Gold
Chairman of the Board, President
and Chief
Executive Officer (Principal
Executive Officer)

/s/ KENT GRIFFIN

Kent Griffin
Chief Financial Officer
(Principal Financial Officer)

32