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

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	**20-1142292**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

17140 Bernardo Center Drive, Suite 222	
San Diego, California	**92128**
(Address of Principal Executive Offices)	*(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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

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

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.

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

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 (Unaudited)	December 31, 2005
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

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.

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.

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

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.

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)

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 corporatio 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

8

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 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	Principal Balance 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

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.

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

	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:

	Unvested	Weighted

	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

	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):

				Deferred Leasing Costs					
Property	Acquisition Date	Investment in Real Estate	Above Market Lease	In place Lease	Management Fee	Below Market Lease	Mortgage Note Assumed	Mortgage Note Premium	Total Cash 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
		$ 468,321	$ 1,027	$ 1,666	$ 10	$ (252)	$ (1,766)	$ (236)	$ 468,770
Weighted average intangible amortization life (in months)			83	38	6	20		112	

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.

15

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

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.

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.

20

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.

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)		