

BioMed Realty Trust Inc  
Form 10-Q  
November 14, 2005

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**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 September 30, 2005.  
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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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 November 14, 2005 was 46,634,640.

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FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005  
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**Table of Contents****PART 1 FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**BIOMED REALTY TRUST, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Investments in real estate, net	\$ 1,072,427	\$ 468,488
Investment in unconsolidated partnership	2,492	2,470
Cash and cash equivalents	74,495	27,869
Restricted cash	5,866	2,470
Accounts receivable, net	5,819	1,837
Accrued straight-line rents, net	7,166	3,306
Acquired above market leases, net	7,437	8,006
Deferred leasing costs, net	138,008	61,503
Deferred loan costs, net	5,196	1,700
Prepaid expenses	5,216	1,531
Other assets	6,359	2,543
<b>Total assets</b>	<b>\$ 1,330,481</b>	<b>\$ 581,723</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Mortgage notes payable, net	\$ 248,004	\$ 102,236
Secured term loan	250,000	
Security deposits	6,222	4,831
Due to affiliates		53
Dividends and distributions payable	13,367	9,249
Accounts payable and accrued expenses	25,234	7,529
Acquired lease obligations, net	30,822	13,741
<b>Total liabilities</b>	<b>573,649</b>	<b>137,639</b>
Minority interests	21,278	22,267
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, 46,635,890 and 31,386,333 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	466	314
Additional paid-in capital	760,834	434,075
Deferred compensation	(4,066)	(4,182)
Accumulated other comprehensive income	3,802	
Dividends in excess of earnings	(25,482)	(8,390)
<b>Total stockholders' equity</b>	<b>735,554</b>	<b>421,817</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,330,481</b>	<b>\$ 581,723</b>

See accompanying notes to consolidated financial statements.

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**BIOMED REALTY TRUST, INC. AND  
INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)  
CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<b>BIOMED REALTY TRUST, INC.</b>	<b>Period August 11, 2004</b>	<b>INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)</b>
	<b>Three Months Ended September 30, 2005</b>	<b>through September 30, 2004</b>	<b>Period July 1, 2004 through August 17, 2004</b>
(In thousands, except per share data)			
Revenues:			
Rental	\$ 28,593	\$ 6,107	\$ 796
Tenant recoveries	12,225	2,878	76
Other income	512		
<b>Total revenues</b>	<b>41,330</b>	<b>8,985</b>	<b>872</b>
Expenses:			
Rental operations	9,763	2,739	5
Real estate taxes	3,573	800	41
Depreciation and amortization	12,164	2,251	122
General and administrative	3,756	1,195	
<b>Total expenses</b>	<b>29,256</b>	<b>6,985</b>	<b>168</b>
Income from operations	12,074	2,000	704
Equity in net income of unconsolidated partnership	20		
Interest income	807	124	
Interest expense	(7,422)	(218)	(312)
Income before minority interests	5,479	1,906	392
Minority interest in consolidated partnership	45	58	
Minority interests in operating partnership	(323)	(137)	
<b>Net income</b>	<b>\$ 5,201</b>	<b>\$ 1,827</b>	<b>\$ 392</b>
Basic earnings per share	\$ 0.11	\$ 0.06	
Diluted earnings per share	\$ 0.11	\$ 0.06	
Weighted-average common shares outstanding:			
Basic	46,287,617	30,673,883	

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Diluted

49,444,409

30,754,840

See accompanying notes to consolidated financial statements.

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**BIOMED REALTY TRUST, INC. AND  
INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)  
CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

	<b>BIOMED REALTY TRUST, INC.</b>		<b>INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)</b>
	Nine Months Ended September 30, 2005	Period August 11, 2004 through September 30, 2004	Period January 1, 2004 through August 17, 2004
	(In thousands, except per share data)		
Revenues:			
Rental	\$ 62,821	\$ 6,107	\$ 3,933
Tenant recoveries	28,035	2,878	375
Other income	3,508		
<b>Total revenues</b>	<b>94,364</b>	<b>8,985</b>	<b>4,308</b>
Expenses:			
Rental operations	22,879	2,739	131
Real estate taxes	7,836	800	222
Depreciation and amortization	26,832	2,251	600
General and administrative	9,001	1,195	
<b>Total expenses</b>	<b>66,548</b>	<b>6,985</b>	<b>953</b>
Income from operations	27,816	2,000	3,355
Equity in net income of unconsolidated partnership	91		
Interest income	987	124	
Interest expense	(15,645)	(218)	(1,700)
Income before minority interests	13,249	1,906	1,655
Minority interest in consolidated partnership	219	58	
Minority interests in operating partnership	(991)	(137)	
<b>Net income</b>	<b>\$ 12,477</b>	<b>\$ 1,827</b>	<b>\$ 1,655</b>
Basic earnings per share	\$ 0.34	\$ 0.06	
Diluted earnings per share	\$ 0.34	\$ 0.06	
Weighted-average common shares outstanding:			

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Basic	36,406,068	30,673,883
Diluted	39,545,665	30,754,840

See accompanying notes to consolidated financial statements.

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**BIOMED REALTY TRUST, INC. AND  
INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)**

	<b>BIOMED REALTY TRUST, INC. Nine Months Ended September 30, 2005</b>	<b>BIOMED REALTY TRUST, INC. AND INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)  Nine Months Ended September 30, 2004 (in thousands)</b>
Operating activities:		
Net income	\$ 12,477	\$ 3,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest in consolidated partnership	(219)	(58)
Minority interests in operating partnership	991	137
Depreciation and amortization	26,832	2,851
Bad debt expense	171	
Revenue reduction attributable to acquired above market leases	1,189	160
Revenue recognized attributable to acquired lease obligations	(2,157)	(49)
Vesting of restricted common stock	3,007	328
Amortization of loan costs	2,675	49
Interest expense reduction for amortization of debt premium	(1,280)	
Income from unconsolidated partnership	(91)	
Distributions received from unconsolidated partnership	69	
Changes in operating assets and liabilities:		
Restricted cash	(3,396)	(854)
Accounts receivable	(4,153)	(1,074)
Due from affiliates		(32)
Accrued straight-line rents	(3,860)	(830)
Deferred leasing costs	(1,239)	
Prepaid expenses	(3,685)	(1,601)
Other assets	(3,816)	(272)
Security deposits	683	
Due to affiliates	(53)	91
Accounts payable and accrued expenses	15,274	5,861
Net cash provided by operating activities	39,419	8,189
Investing activities:		
	(539,003)	(396,457)

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Purchases of interests in and additions to investments in real estate and related intangible assets		
Security deposits received from prior owners of real estate	708	3,258
Accrued construction and tenant improvement costs	6,233	
Receipts of master lease payments (reduction to investments in real estate)	1,664	
Funds held in escrow for acquisitions		(1,850)
Repayment of related party payables		(3,000)
Net cash used in investing activities	(530,398)	(398,049)
Financing activities:		
Proceeds from common stock offering	340,256	465,753
Payment of offering costs	(16,236)	(36,734)
Payment of loan costs	(6,171)	(1,222)
Line of credit proceeds	227,175	
Line of credit payments	(227,175)	
Secured term loan proceeds	250,000	
Unsecured term loan proceeds	100,000	
Unsecured term loan payments	(100,000)	
Principal payments on mortgage notes payable	(2,468)	(44)
Distributions to operating partnership unit holders	(2,325)	
Dividends paid	(25,451)	
Distributions to owners of Predecessor		(1,187)
Net cash provided by financing activities	537,605	426,566
Net increase in cash and cash equivalents	46,626	36,706
Cash and cash equivalents at beginning of period	27,869	157
Cash and cash equivalents at end of period	\$ 74,495	\$ 36,863
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest (net of amounts capitalized of \$446 and \$0, respectively)	\$ 12,827	\$ 1,995
Supplemental disclosure of non-cash investing and financing activities:		
Accrual for dividends declared	12,592	4,698
Accrual for distributions declared for operating partnership unit holders	775	357
Restricted stock awards	2,891	4,997
Mortgage loans assumed (includes premium of \$11,312 and \$4,730, respectively)	149,516	47,642
Historic cost basis of assets transferred from Predecessor (including \$2,061 of accrued straight-line rents as of August 17, 2004)		49,592
Operating partnership units issued for interests in certain contributed properties		21,666
Investment in unconsolidated partnership acquired by issuing operating partnership units		2,508
Distributions in excess of equity balance to owners of Predecessor		7,061
Accrual for offering costs		(602)

See accompanying notes to consolidated financial statements.



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**BIOMED REALTY TRUST, INC. AND  
INHALE 201 INDUSTRIAL ROAD, L.P. (PREDECESSOR)  
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). 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 include biotechnology and pharmaceutical companies, scientific research institutions, government agencies and other entities involved in the life science industry. The Company's current properties and its 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.

The Company was incorporated in Maryland on April 30, 2004. On August 11, 2004, the Company commenced operations after completing its initial public offering (the Offering) of 27,000,000 shares of its common stock, par value \$.01 per share. The Offering price was \$15.00 per share resulting in gross proceeds of \$405.0 million. On August 16, 2004, in connection with the exercise of the underwriters' over-allotment option, the Company issued an additional 4,050,000 shares of common stock and received gross proceeds of \$60.8 million. The aggregate proceeds to the Company, net of underwriting discounts and commissions and Offering costs, were approximately \$429.3 million. The Company issued a stock warrant in connection with the Offering to the lead underwriter for the right to purchase 270,000 common shares at \$15.00 per share, which equals the estimated fair value at the date of grant. The warrant became exercisable six months after the Offering date and expires five years after the Offering date. From inception through August 11, 2004, neither the Company nor its Operating Partnership had any operations. Simultaneously with the Offering, the Company obtained a \$100.0 million revolving unsecured credit facility (Note 5), which was used to finance acquisitions and for other corporate purposes prior to being replaced on May 31, 2005 with a \$250.0 million revolving unsecured credit facility with KeyBank National Association and other lenders (Note 5).

On June 27, 2005, we completed a follow-on common stock offering of 15,122,500 shares at \$22.50 per share, resulting in gross proceeds of \$340.3 million. The net proceeds of \$324.0 million were used to repay the outstanding balance on our revolving credit facility (Note 5), to repay our \$100.0 million unsecured term loan (Note 5), to acquire properties and for other corporate purposes. The Company expects to use the remaining proceeds for future property acquisitions and for other general corporate and working capital purposes.

As of September 30, 2005, we owned or had interests in 36 properties, located principally in Boston, San Diego, San Francisco, Seattle, Maryland, Pennsylvania, New York and New Jersey, consisting of 59 buildings with approximately 4.4 million rentable square feet of laboratory and office space, which was approximately 90.6% leased to 81 tenants. Of the remaining unleased space, 269,316 square feet, or 6.1% of our total rentable square footage, was under redevelopment. We also owned undeveloped land that we estimate can support up to 600,000 rentable square feet of laboratory and office space.

Industrial Road was the largest of the properties contributed in the Offering and therefore has been identified as the accounting acquirer pursuant to paragraph 17 of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS 141). As such, the historical financial statements presented herein for Industrial Road were prepared on a stand-alone basis up to and including the acquisition date, August 17, 2004. Upon completion of the Offering, the interest in the Predecessor acquired from affiliates was recorded at historic cost. The acquisitions of the unaffiliated interests in the Predecessor and the interests in all of the other properties have been accounted for as a purchase in accordance with SFAS 141.

**Table of Contents****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 necessary for a fair presentation of the financial statements for these interim periods have been included. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2004.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and partnerships and limited liability companies it controls. 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. With respect to the partnerships and limited liability companies, the Company determines control through a consideration of each party's financial interests in profits and losses and the ability to participate in major decisions such as the acquisition, sale or refinancing of principal assets.

***Investments in Real Estate***

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

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
Land	\$ 122,984	\$ 68,762
Ground lease	14,210	14,210
Buildings and improvements	917,977	388,502
Construction in process	19,478	
Tenant improvements	13,199	283
	1,087,848	471,757
Accumulated depreciation	(15,421)	(3,269)
	\$ 1,072,427	\$ 468,488

The purchase prices of our acquisitions completed in 2005 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 12 months from the date of acquisition.

***Revenue Recognition***

Lease termination fees are recognized when the related leases are canceled and we have no continuing obligation to provide services to former tenants. A gain on early termination of lease of \$3.2 million for the nine months ended September 30, 2005 is included in other income on the consolidated statements of income and was primarily due to the early termination of a portion of the Nektar Therapeutics lease at our Industrial Road property. Accordingly, the related lease commissions and other related intangible assets have been fully amortized.

***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,

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undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, 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.

**Income Taxes**

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with our taxable year ended December 31, 2004. We believe we have qualified and continue to qualify as a REIT. As a REIT, we will be permitted to deduct distributions paid to our stockholders and generally will not be required to pay federal corporate income taxes on such income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

**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 financial statements and the reporting of revenue and expenses during the reporting period to prepare these 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.

**3. Minority Interests**

Minority interests on the consolidated balance sheets relate to the limited partnership units in the Operating Partnership ( Units ) that are not owned by the Company, which at September 30, 2005 amounted to 5.84% 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 and the 10% interest of a member in the limited liability company that owns the Waples property, which are consolidated entities of the Company.

**4. Mortgage Notes Payable**

A summary of our outstanding consolidated secured indebtedness as of September 30, 2005 is as follows (in thousands):

	<b>Stated Fixed Interest Rate</b>	<b>Effective Interest Rate</b>	<b>Principal Amount</b>	<b>Unamortized Premium Amount</b>	<b>Carrying Value at September 30, 2005</b>	<b>Carrying Value at December 31, 2004</b>	<b>Maturity Date</b>
Ardentech Court	7.25%	5.06%	\$ 4,767	\$ 552	\$ 5,319	\$ 5,440	July 1, 2012
Bayshore Boulevard	4.55%	4.55%	16,199		16,199	16,438	January 1, 2010
Bridgeview	8.07%	5.04%	11,759	1,627	13,386	13,681	January 1, 2011
Eisenhower Road	5.80%	4.63%	2,218	61	2,279	2,331	May 5, 2008
Elliott Avenue	7.38%	4.63%	16,646	829	17,475	18,107	

						November 24, 2007
40 Erie Street	7.34%	4.90%	19,810	1,193	21,003	August 1, 2008
Kendall Square D	6.38%	5.45%	72,739	5,384	78,123	December 1, 2018
Lucent Drive Monte Villa	5.50%	5.50%	5,943		5,943	January 21, 2015
Parkway	4.55%	4.55				