

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

FORM 10-Q

(Mark One)

  X   QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2004

OR

       TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12993

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

Maryland 95-4502084  
(State or other jurisdiction of (I.R.S. Employer Identification Number)  
incorporation or organization)

135 North Los Robles Avenue, Suite 250, Pasadena, California 91101  
(Address of principal executive offices)

(626) 578-0777  
(Registrant's telephone number, including area code)

N/A

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes   X   No       

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes   X   No       

As of May 6, 2004, 19,378,632 shares of common stock, par value \$.01 per share, were outstanding.

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**PART I – FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS (UNAUDITED)**

Alexandria Real Estate Equities, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(dollars in thousands)

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
<b>Assets</b>		
Rental properties, net	\$ 1,016,385	\$ 982,297
Properties under development	131,955	153,379
Cash and cash equivalents	4,356	4,985
Tenant security deposits and other restricted cash	13,909	11,057
Tenant receivables	2,504	1,969
Deferred rent	34,559	31,503
Investments	48,842	47,126
Other assets	42,310	40,261
Total assets	<u>\$ 1,294,820</u>	<u>\$ 1,272,577</u>
<b>Liabilities and Stockholders' Equity</b>		
Secured notes payable	\$ 355,898	\$ 320,007
Unsecured line of credit and unsecured term loan	363,000	389,000
Accounts payable, accrued expenses and tenant security deposits	50,717	43,408
Dividends payable	13,481	13,027
Total liabilities	783,096	765,442
Stockholders' equity:		
Series A preferred stock	38,588	38,588
Series B preferred stock	57,500	57,500
Common stock	194	193
Additional paid-in capital	414,317	409,926
Deferred compensation	(1,976)	(2,232)
Retained earnings	10,120	8,635
Accumulated other comprehensive income	(7,019)	(5,475)
Total stockholders' equity	511,724	507,135
Total liabilities and stockholders' equity	<u>\$ 1,294,820</u>	<u>\$ 1,272,577</u>

See accompanying notes.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Condensed Consolidated Income Statements

(Unaudited)

(dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2004	2003
<b>Revenues</b>		
Rental	\$ 33,774	\$ 31,222
Tenant recoveries	8,314	8,479
Other income	687	338
	<u>42,775</u>	<u>40,039</u>
<b>Expenses</b>		
Rental operations	8,735	8,576
General and administrative	3,636	3,549
Interest	6,709	6,871
Depreciation and amortization	9,981	9,374
	<u>29,061</u>	<u>28,370</u>
Income from continuing operations	13,714	11,669
Income from discontinued operations, net	<u>1,626</u>	<u>480</u>
Net income	<u>\$ 15,340</u>	<u>\$ 12,149</u>
Dividends on preferred stock	<u>2,225</u>	<u>2,225</u>
Net income available to common stockholders	<u>\$ 13,115</u>	<u>\$ 9,924</u>
Basic income per common share:		
Income from continuing operations	<u>\$ 0.71</u>	<u>\$ 0.62</u>
Income from discontinued operations, net	<u>\$ 0.08</u>	<u>\$ 0.03</u>
Net income	<u>\$ 0.80</u>	<u>\$ 0.64</u>
Net income available to common stockholders	<u>\$ 0.68</u>	<u>\$ 0.53</u>
Diluted income per common share:		
Income from continuing operations	<u>\$ 0.70</u>	<u>\$ 0.61</u>
Income from discontinued operations, net	<u>\$ 0.08</u>	<u>\$ 0.03</u>
Net income	<u>\$ 0.78</u>	<u>\$ 0.63</u>
Net income available to common stockholders	<u>\$ 0.67</u>	<u>\$ 0.52</u>
Weighted average shares of common stock outstanding:		
-Basic	<u>19,206,954</u>	<u>18,895,821</u>
-Diluted	<u>19,584,003</u>	<u>19,136,372</u>

See accompanying notes.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows  
(Unaudited)  
(dollars in thousands)

	Three Months Ended	
	March 31,	
	2004	2003
<b>Operating Activities</b>		
Net income	\$ 15,340	\$ 12,149
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sales of property	(1,627)	455
Depreciation and amortization	9,981	9,461
Amortization of loan fees and costs	558	464
Amortization of premiums on secured notes	(31)	(100)
Stock compensation expense	802	955
Changes in operating assets and liabilities:		
Tenant security deposits and other restricted cash	(2,852)	(759)
Tenant receivables	(535)	(665)
Deferred rent	(3,064)	(1,966)
Other assets	(4,262)	(650)
Accounts payable, accrued expenses and tenant security deposits	5,206	(1,708)
Net cash provided by operating activities	19,516	17,636
<b>Investing Activities</b>		
Purchase of rental properties	-	(3,677)
Proceeds from sales of property	5,454	6,558
Additions to rental properties	(18,359)	(12,496)
Purchase of properties under development	-	(34,700)
Additions to properties under development	(6,112)	(8,831)
Additions to investments, net	(1,371)	(1,853)
Net cash used in investing activities	(20,388)	(54,999)
<b>Financing Activities</b>		
Proceeds from secured notes payable	38,000	34,000
Proceeds from exercise of stock options	3,722	720
(Principal reduction to) net borrowings from unsecured line of credit and unsecured term loan	(26,000)	16,000
Principal reductions of secured notes payable	(2,078)	(1,757)
Dividends paid on common stock	(11,176)	(9,491)
Dividends paid on preferred stock	(2,225)	(2,225)
Net cash provided by financing activities	243	37,247
Net decrease in cash and cash equivalents	(629)	(116)
Cash and cash equivalents at beginning of period	4,985	3,790
Cash and cash equivalents at end of period	<u>\$ 4,356</u>	<u>\$ 3,674</u>

See accompanying notes.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

**1. Background and Basis of Presentation**

**Background**

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged primarily in the ownership, operation, management, acquisition, expansion and selective redevelopment and development of properties containing a combination of office and laboratory space. We refer to these properties as "life science properties". Our life science properties are designed and improved for lease primarily to pharmaceutical, biotechnology, life science product and service companies, not-for-profit scientific research institutions, universities and related government agencies. As of March 31, 2004, our portfolio consisted of 89 properties in nine states with approximately 5.7 million rentable square feet.

We have prepared the accompanying interim financial statements in accordance with accounting principles generally accepted in the United States and in conformity with the rules and regulations of the Securities and Exchange Commission. In our opinion, the interim financial statements presented herein reflect all adjustments, consisting solely of normal and recurring adjustments, which are necessary to fairly present the interim financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. These financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003.

**Basis of Presentation and Significant Accounting Policies**

The accompanying condensed consolidated financial statements include the accounts of Alexandria Real Estate Equities, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

**Reclassifications**

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

## 1. Background and Basis of Presentation (continued)

### Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of the following (in thousands):

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
Unrealized gain on marketable securities	\$ 1,169	\$ 824
Unrealized loss on interest rate swap agreements	<u>(8,188)</u>	<u>(6,299)</u>
	<u><u>\$ (7,019)</u></u>	<u><u>\$ (5,475)</u></u>

The following table provides a reconciliation of comprehensive income (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net income	\$ 15,340	\$ 12,149
Unrealized gain on marketable securities	345	6
Unrealized (loss) gain on interest rate swap agreements	<u>(1,889)</u>	<u>145</u>
Comprehensive income	<u><u>\$ 13,796</u></u>	<u><u>\$ 12,300</u></u>

## 2. Rental Properties, Net

Rental properties, net consist of the following (in thousands):

	<b>March 31, 2004</b>	<b>December 31, 2003</b>
Land	\$ 150,939	\$ 147,425
Buildings and improvements	888,370	854,152
Tenant and other improvements	<u>126,325</u>	<u>122,280</u>
	1,165,634	1,123,857
Less accumulated depreciation	<u>(149,249)</u>	<u>(141,560)</u>
	<u><u>\$ 1,016,385</u></u>	<u><u>\$ 982,297</u></u>



## 2. Rental Properties, Net (continued)

In February 2004, we sold an office property in the Suburban Washington D.C. market that had been designated as "held for sale" during the fourth quarter of 2003. The total sales price for the property was approximately \$5.7 million (see Note 8).

## 3. Investments

We hold equity investments in certain publicly-traded companies and privately-held entities primarily involved in the life science industry. All of our investments in publicly-traded companies are considered "available for sale" under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The following table summarizes our available-for-sale securities (in thousands):

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
Adjusted cost of available-for-sale securities	\$ 1,093	\$ 1,257
Gross unrealized gains	1,169	837
Gross unrealized losses	<u>-</u>	<u>(13)</u>
Fair value of available-for-sale securities	<u>\$ 2,262</u>	<u>\$ 2,081</u>

Investments in privately-held entities as of March 31, 2004 and December 31, 2003, totaled \$46,580,000 and \$45,045,000, respectively. Of these totals, \$45,497,000 and \$42,331,000 are accounted for under the cost method. The remainder (\$1,083,000 and \$2,714,000 as of March 31, 2004 and December 31, 2003, respectively) is accounted for under the equity method in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" ("APB 18") and Emerging Issues Task Force Topic D-46, "Accounting for Limited Partnership Investments".

For all of our investments, if a decline in the fair value of an investment below its carrying value is determined to be other than temporary, such investment is written down to its estimated fair value with a non-cash impairment charge to current earnings.

#### **4. Unsecured Line of Credit and Unsecured Term Loan**

We have an unsecured line of credit that provides for borrowings of up to \$440 million and an unsecured term loan for \$150 million. Borrowings under our unsecured line of credit and our unsecured term loan, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or a rate related to the higher of the bank's reference rate and the Federal Funds rate. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio and a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions and mergers. The unsecured line of credit expires November 2006 and may be extended at our sole option for an additional one-year period. As of March 31, 2004, borrowings outstanding on the unsecured line of credit carried a weighted average interest rate of 2.64%. The unsecured term loan expires in November 2008. As of March 31, 2004, the unsecured term loan carried a weighted average interest rate of 2.61%.

Aggregate borrowings under the unsecured line of credit and unsecured term loan may be limited to an amount based on the net operating income derived from a pool of unencumbered properties. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate borrowings available under the unsecured line of credit and unsecured term loan will increase up to a maximum of \$590 million. Under these provisions, as of March 31, 2004, aggregate borrowings under our unsecured line of credit and unsecured term loan were limited to \$455 million.

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

#### 4. Unsecured Line of Credit and Unsecured Term Loan (continued)

The following table summarizes our interest rate swap agreements as of March 31, 2004 (dollars in thousands):

<u>Transaction Dates</u>	<u>Effective Dates</u>	<u>Notional Amounts</u>	<u>Effective at March 31, 2004</u>	<u>Interest Pay Rates</u>	<u>Termination Dates</u>	<u>Fair Values</u>
<u>Hedges for Unsecured Line of Credit</u>						
March 2002	December 31, 2002	\$ 50,000	\$ 50,000	5.364%	December 31, 2004	\$ (1,584)
July 2002	January 1, 2003	25,000	25,000	3.855%	June 30, 2005	(772)
July 2002	January 1, 2003	25,000	25,000	3.865%	June 30, 2005	(775)
December 2002	January 2, 2003	25,000	25,000	3.285%	June 30, 2006	(755)
December 2002	January 2, 2003	25,000	25,000	3.285%	June 30, 2006	(755)
November 2002	June 1, 2003	25,000	25,000	3.115%	December 31, 2005	(633)
November 2002	June 1, 2003	25,000	25,000	3.155%	December 31, 2005	(650)
March 2004	December 31, 2004	25,000	-	2.956%	December 31, 2006	(185)
March 2004	December 31, 2004	25,000	-	2.956%	December 31, 2006	(185)
			<u>\$ 200,000</u>			
<u>Hedges for Unsecured Term Loan</u>						
December 2003	December 31, 2003	50,000	\$ 50,000	1.53%	December 31, 2004	(132)
December 2003	December 31, 2004	50,000	-	3.00%	December 30, 2005	(475)
December 2003	December 30, 2005	50,000	-	4.15%	December 29, 2006	(495)
December 2003	December 29, 2006	50,000	-	5.09%	October 31, 2008	(792)
			<u>\$ 50,000</u>			<u>\$ (8,188)</u>
Total Interest Rate Swaps in Effect at March 31, 2004			<u>\$ 250,000</u>			

#### 5. Stockholders' Equity

In March 2004, we declared a cash dividend on our common stock aggregating \$11,627,000 (\$ 0.60 per share) for the calendar quarter ended March 31, 2004. In March 2004, we declared a cash dividend on our Series A preferred stock aggregating \$916,000 (\$ 0.59375 per share) for the period from January 15, 2004 through April 14, 2004. In March 2004, we also declared a cash dividend on our Series B preferred stock aggregating \$1,308,000 (\$0.56875 per share) for the period January 15, 2004 through April 14, 2004. We paid these dividends on April 15, 2004.

## 6. Stock Option Plan

For 2002 and all prior years, we elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for our employee and non-employee director stock options, stock grants and stock appreciation rights. Under APB 25, because the exercise price of the options we granted equals the market price of the underlying stock on the date of grant, no compensation expense had been recognized.

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"), which addresses alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. Effective January 1, 2003, we adopted the fair value recognition provisions of Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), prospectively to all employee awards granted, modified or settled after January 1, 2003. There have been no options issued since January 1, 2003.

The following table provides pro forma disclosures of the estimated fair value of the options amortized to expense over the options' vesting periods as if we had accounted for our stock options under the fair value method under SFAS 123 since the date they were granted (in thousands, except per share information):

	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net income available to common stockholders, as reported	\$ 13,115	\$ 9,924
Add: Stock-based employee compensation expense included in reported net income	-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(190)	(335)
Pro forma net income available to common stockholders	<u>\$ 12,925</u>	<u>\$ 9,589</u>
Earnings per share:		
Basic - as reported	<u>\$ 0.68</u>	<u>\$ 0.53</u>
Basic - pro forma	<u>\$ 0.67</u>	<u>\$ 0.51</u>
Diluted - as reported	<u>\$ 0.67</u>	<u>\$ 0.52</u>
Diluted - pro forma	<u>\$ 0.66</u>	<u>\$ 0.50</u>

## 7. Net Income Per Share

The following table shows the computation of net income per share of our common stock outstanding (dollars in thousands, except per share amounts):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2004</b>	<b>2003</b>
Net income available to common stockholders	<u>\$ 13,115</u>	<u>\$ 9,924</u>
Weighted average shares of common stock outstanding - basic	19,206,954	18,895,821
Add: dilutive effect of stock options and stock grants	<u>377,049</u>	<u>240,551</u>
Weighted average shares of common stock outstanding - diluted	<u>19,584,003</u>	<u>19,136,372</u>
Net income per common share:		
- Basic	<u>\$ 0.68</u>	<u>\$ 0.53</u>
- Diluted	<u>\$ 0.67</u>	<u>\$ 0.52</u>
Common dividends declared per share	<u>\$ 0.60</u>	<u>\$ 0.53</u>

## **8. Discontinued Operations**

On January 1, 2002, Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") became effective. SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Under SFAS 144, a property is classified as "held for sale" when all of the following criteria for a plan of sale have been met: 1) management, having the authority to approve the action, commits to a plan to sell the property, 2) the property is available for immediate sale in its present condition, subject only to the terms that are usual and customary, 3) an active program to locate a buyer, and other actions required to complete the plan to sell, have been initiated, 4) the sale of the property is probable and is expected to be completed within one year, 5) the property is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and 6) actions necessary to complete the plan of sale indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When all of these criteria have been met, the property is classified as "held for sale" and its operations are classified as discontinued operations in our consolidated statements of income. When a property is designated as "held for sale", amounts for all prior periods presented are reclassified from continuing operations to discontinued operations. A loss is recognized for any initial adjustment of the asset's carrying amount to fair value less costs to sell in the period the asset qualifies as "held for sale". Depreciation of assets ceases commencing on the date they are designated as "held for sale". The accompanying statements have been presented in compliance with SFAS 144.

Income from discontinued operations, net includes the results of operations for three properties we sold during 2003 and one property we sold during the first quarter of 2004 under the provisions of SFAS 144. During the first quarter of 2004, we sold one property located in the Suburban Washington D.C. market that had been designated as "held for sale" during the fourth quarter of 2003. The total sale price for the property was approximately \$5.7 million. In connection with the sale, we recorded a gain on sale of property of approximately \$1.6 million. During the first quarter of 2003, we sold one property located in the San Francisco Bay market which could not be redeveloped pursuant to our original strategic objectives and that had been designated as "held for sale" as of December 31, 2002. The total sale price for the property was approximately \$6.8 million. In connection with this sale, we recorded a loss on sale of property of approximately \$455,000 in 2003. Gain/loss on sales of these properties are included on the income statement in income from discontinued operations.

## 8. Discontinued Operations (continued)

The following is a summary of discontinued operations (in thousands):

	Three Months Ended March 31,	
	2004	2003
Revenue	\$ 14	\$ 1,784
Operating expenses	15	423
Revenue less operating expenses	(1)	1,361
Interest	-	339
Depreciation	-	87
Income before gain (loss) on sales of property	(1)	935
Gain (loss) on sales of property	1,627	(455)
Income from discontinued operations, net	<u>\$ 1,626</u>	<u>\$ 480</u>
	<b>March 31, 2004</b>	<b>December 31, 2003</b>
Properties held for sale, net	\$ -	\$ 3,518
Tenant security deposits and other restricted cash	-	6
Tenant receivables	-	82
Deferred rent	-	8
Other assets	-	66
Total assets	<u>\$ -</u>	<u>\$ 3,680</u>
Accounts payable, accrued expenses and tenant security deposits	-	79
Total liabilities	-	79
Net assets of discontinued operations	<u>\$ -</u>	<u>\$ 3,601</u>

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

Certain information and statements included in this Quarterly Report on Form 10-Q, including, without limitation, statements containing the words "believes", "expects", "may", "will", "should", "seeks", "approximately", "intends", "plans", "estimates" or "anticipates", or the negative of these words or similar words, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by the forward-looking statements, including, but not limited to, those described below in this report and under the headings "Business Risks" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2003. We do not take any responsibility to update any of these factors or to announce publicly any revisions to any of the forward-looking statements contained in this or any other document, whether as a result of new information, future events or otherwise. Readers of this Form 10-Q should also read our Securities and Exchange Commission and other publicly filed documents for further discussion regarding such factors.

As used in this Form 10-Q, "we", "our", "ours" and "us" refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

The following discussion should be read in conjunction with the financial statements and notes appearing elsewhere in this report.

### **Overview**

Since our formation in October 1994, we have devoted substantially all of our resources to the ownership, operation, management, acquisition, expansion and selective redevelopment and development of high quality, strategically located properties containing a combination of office and laboratory space leased principally to tenants in the life science industry. We refer to these properties as "life science properties".

As of March 31, 2004, our portfolio consisted of 89 properties containing approximately 5.7 million rentable square feet of office/laboratory space. As of that date, our properties were approximately 93% leased, excluding those properties in our redevelopment program. Our primary source of revenue is rental income and tenant recoveries from leases at the properties we own. The comparability of financial data from period to period is affected by the timing of our property acquisition, development and redevelopment activities.



## Results of Operations

### *Comparison of Three Months Ended March 31, 2004 ("First Quarter 2004") to Three Months Ended March 31, 2003 ("First Quarter 2003")*

Rental revenue increased by \$2.6 million, or 8%, to \$33.8 million for First Quarter 2004 compared to \$31.2 million for First Quarter 2003. The increase resulted primarily from rental revenue from properties acquired, placed in service or redeveloped after January 1, 2003. Rental revenue from the properties operating continuously since January 1, 2003 (the "First Quarter Same Properties") increased by \$931,000, or 3.6%, primarily due to increases in rental rates and offset by a slight decrease in occupancy. The occupancy level of the First Quarter Same Properties as of March 31, 2004 was 95.4%, compared to 95.5% as of March 31, 2003.

Tenant recoveries decreased by \$165,000, or 2%, to \$8.3 million for First Quarter 2004 compared to \$8.5 million for First Quarter 2003. The decrease resulted primarily from a favorable 2002 year end operating expense recovery reconciliation recognized in First Quarter 2003. Tenant recoveries for the First Quarter Same Properties decreased by \$402,000, or 5.5%, primarily due to increases in certain recoverable operating expenses during First Quarter 2003 and a non-recurring increase in tenant recoveries during First Quarter 2003 due to the year end operating expense recovery reconciliation.

Other income increased by \$349,000, or 103%, to \$687,000 for First Quarter 2004 compared to \$338,000 for First Quarter 2003. The increase resulted primarily due to a general increase in miscellaneous sources of income.

Rental operating expenses increased by \$159,000, or 2%, to \$8.7 million for First Quarter 2004 compared to \$8.6 million for First Quarter 2003. The increase resulted primarily from rental operating expenses from properties acquired, placed in service or redeveloped after January 1, 2003. Operating expenses for the First Quarter Same Properties decreased by \$178,000, or 2.5%, primarily due to a decrease in property taxes from successful appeals at certain properties and a decrease in repairs and maintenance expenses, substantially all of which are recoverable from our tenants through tenant recoveries.

General and administrative expenses increased by \$87,000, or 2%, to \$3.6 million for First Quarter 2004 compared to \$3.5 million for First Quarter 2003 primarily due to general increases in administrative costs, primarily payroll and related expenses.

Interest expense decreased by \$162,000, or 2%, to \$6.7 million for First Quarter 2004 compared to \$6.9 million for First Quarter 2003. The decrease resulted from principal reductions on our unsecured line of credit and unsecured term loan and a reduction in the floating interest rate on our unsecured line of credit and unsecured term loan. The weighted average interest rate on these borrowings (excluding the effect of swap agreements) decreased from 2.91% as of March 31, 2003 to 2.63% as of March 31, 2004. The decrease was offset slightly by an increase in indebtedness on our secured notes payable.

Depreciation and amortization increased by \$607,000, or 6%, to \$10.0 million for First Quarter 2004 compared to \$9.4 million for First Quarter 2003. The increase resulted primarily from depreciation associated with the properties acquired, placed in service or redeveloped after January 1, 2003.

Income from discontinued operations, net was \$1.6 million for First Quarter 2004. It reflects the results of operations of one property in the Suburban Washington D.C. market that was sold in First Quarter 2004. In connection with this sale, we recorded a net gain of approximately \$1.6 million.

As a result of the foregoing, net income was \$15.3 million for First Quarter 2004 compared to \$12.1 million for First Quarter 2003.

## Liquidity and Capital Resources

### *Cash flows*

Net cash provided by operating activities for First Quarter 2004 increased by \$1.9 million to \$19.5 million compared to \$17.6 million for First Quarter 2003. The increase resulted primarily from increases in cash flows from our portfolio of operating properties and a decline in accounts payable, accrued expenses and tenant security deposits, offset by an increase in tenant security deposits and other restricted cash and other assets.

Net cash used in investing activities decreased by \$34.6 million to \$20.4 million for First Quarter 2004 compared to \$55.0 million for First Quarter 2003. This decrease was primarily due to the lower level of acquisitions for First Quarter 2004 compared to First Quarter 2003.

Net cash provided by financing activities decreased by \$37.0 million to \$243,000 for First Quarter 2004 compared to \$37.2 million for First Quarter 2003. Cash provided by financing activities for First Quarter 2004 primarily consisted of net proceeds from our secured debt, offset by principal reductions to our unsecured line of credit and unsecured term loan and distributions to stockholders.

### *Contractual obligations and commitments*

Contractual obligations as of March 31, 2004, consist of the following (dollars in thousands):

		Payments by Period				
	Total	2004	2005-2006	2007-2008	Thereafter	
Contractual Obligations						
Secured notes payable (1)	\$ 355,677	\$ 7,718	\$ 55,028	\$ 54,243	\$ 238,688	
Ground lease obligations	65,005	1,251	3,529	3,631	56,594	
Other obligations	619	377	242	-	-	
Total	\$ 421,301	\$ 9,346	\$ 58,799	\$ 57,874	\$ 295,282	

(1) Excludes unamortized premium of \$221,000 as of March 31, 2004.

Secured notes payable as of March 31, 2003 include 17 notes secured by 43 properties.

Ground lease obligations as of March 31, 2004 include leases at six of our properties and one land development parcel. These lease obligations have remaining lease terms of 29 to 51 years, exclusive of extension options.

In addition to the above, we were committed under the terms of construction contracts to complete the construction of properties under development at a remaining aggregate cost of \$10.6 million.

As of March 31, 2004, we were also committed to fund approximately \$19.9 million for the construction of building infrastructure improvements under the terms of leases and/or construction contracts and approximately \$19.9 million for certain investments.

***Tenant security deposits and restricted cash***

Tenant security deposits and restricted cash as of March 31, 2004 consist of the following (in thousands):

	<u>Amount</u>
Funds held in trust under the terms of certain secured notes payable	\$ 11,508
Security deposit funds based on the terms of certain lease agreements	2,034
Other funds held in escrow	<u>367</u>
	<u>\$ 13,909</u>

***Secured debt***

Secured debt as of March 31, 2004 consists of the following (dollars in thousands):

<b>Location of Collateral</b>	<b>Balance at March 31, 2004</b>	<b>Stated Interest Rates</b>	<b>Maturity Dates</b>
Lexington, MA	\$ 3,331	8.45%	August 2004
San Francisco, CA (two properties)	22,483	LIBOR + 1.70%	January 2005 (1)
Worcester, MA	9,590 (2)	8.75%	January 2006
Durham, NC (two properties)	11,839	8.68%	December 2006
Gaithersburg, MD (three properties)	9,671	8.25%	August 2007
Chantilly, VA and Seattle, WA	34,292	7.22%	May 2008
San Diego, CA (four properties)	39,955	6.95%	July 2009
Worcester, MA and San Diego, CA	18,356	8.71%	January 2010
Gaithersburg, MD (two properties)	24,078	8.33%	November 2010
San Diego, CA (six properties)	23,578	7.75%	July 2011
Gaithersburg, MD (three properties)	27,710	7.40%	January 2012
Alameda, CA (three properties) and San Diego, CA	33,414	6.21%	March 2013
Rockville, MD (two properties) and Beltsville, MD	29,818	6.36%	September 2013
Alameda, CA	1,412	7.165%	January 2014
Charlestown, MA, Lexington, MA, Montvale, NJ and Plymouth Meeting, PA	38,000	5.82%	April 2016
Seattle, WA (two properties)	17,110	7.75%	June 2016
San Diego, CA	11,261	7.50%	August 2021
	<u>\$ 355,898</u>		

(1) The loan may be extended, at our option, for an additional year.

(2) The balance shown includes an unamortized premium of \$221,000. The effective interest rate of the loan is 7.25%.

The following is a summary of the scheduled principal payments for our secured debt and the weighted average interest rates as of March 31, 2004 (in thousands):

<u>Year</u>	<u>Amount</u>	<u>Weighted Average Interest Rate</u>
2004	\$ 7,718	7.72%
2005	28,838 (1)	3.86% (1)
2006	26,190	7.85% (1)
2007	15,738	7.78%
2008	38,505	7.20%
Thereafter	<u>238,688</u>	<u>7.07%</u>
Subtotal	355,677	<u>6.93%</u>
Unamortized Premium	<u>221</u>	
Total	<u>\$ 355,898</u>	

(1) We have a loan related to a property we developed in the San Francisco Bay market which has a maturity date of 2005 that may be extended for an additional year. If we extend the maturity date of this loan to 2006, the weighted average interest rates for 2005 and 2006 would be 7.17% and 5.57%, respectively.

#### ***Unsecured line of credit and unsecured term loan***

We have an unsecured line of credit that provides for borrowings of up to \$440 million and an unsecured term loan for \$150 million. Borrowings under our unsecured line of credit and our unsecured term loan, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or a rate related to the higher of the bank's reference rate and the Federal Funds rate. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a total liabilities to gross asset value ratio and a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other things, certain investments, indebtedness, distributions and mergers. The unsecured line of credit expires November 2006 and may be extended at our sole option for an additional one-year period. As of March 31, 2004, borrowings outstanding on the unsecured line of credit carried a weighted average interest rate of 2.64%. The unsecured term loan expires in November 2008. As of March 31, 2004, the unsecured term loan carried a weighted average interest rate of 2.61%.

Aggregate borrowings under the unsecured line of credit and unsecured term loan may be limited to an amount based on the net operating income derived from a pool of unencumbered properties. Accordingly, as we acquire or complete the development or redevelopment of additional unencumbered properties, aggregate borrowings available under the unsecured line of credit and unsecured term loan will increase up to a maximum of \$590 million. Under these provisions, as of March 31, 2004, aggregate borrowings under our unsecured line of credit and unsecured term loan were limited to \$455 million.

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

The following table summarizes our interest rate swap agreements as of March 31, 2004 (dollars in thousands):

<u>Transaction Dates</u>	<u>Effective Dates</u>	<u>Notional Amounts</u>	<u>Effective at March 31, 2004</u>	<u>Interest Pay Rates</u>	<u>Termination Dates</u>	<u>Fair Values</u>
<u>Hedges for Unsecured Line of Credit</u>						
March 2002	December 31, 2002	\$ 50,000	\$ 50,000	5.364%	December 31, 2004	\$ (1,584)
July 2002	January 1, 2003	25,000	25,000	3.855%	June 30, 2005	(772)
July 2002	January 1, 2003	25,000	25,000	3.865%	June 30, 2005	(775)
December 2002	January 2, 2003	25,000	25,000	3.285%	June 30, 2006	(755)
December 2002	January 2, 2003	25,000	25,000	3.285%	June 30, 2006	(755)
November 2002	June 1, 2003	25,000	25,000	3.115%	December 31, 2005	(633)
November 2002	June 1, 2003	25,000	25,000	3.155%	December 31, 2005	(650)
March 2004	December 31, 2004	25,000	-	2.956%	December 31, 2006	(185)
March 2004	December 31, 2004	25,000	-	2.956%	December 31, 2006	(185)
			<u>\$ 200,000</u>			
<u>Hedges for Unsecured Term Loan</u>						
December 2003	December 31, 2003	50,000	\$ 50,000	1.53%	December 31, 2004	(132)
December 2003	December 31, 2004	50,000	-	3.00%	December 30, 2005	(475)
December 2003	December 30, 2005	50,000	-	4.15%	December 29, 2006	(495)
December 2003	December 29, 2006	50,000	-	5.09%	October 31, 2008	(792)
			<u>\$ 50,000</u>			<u>\$ (8,188)</u>
Total Interest Rate Swaps in Effect at March 31, 2004			<u>\$ 250,000</u>			

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate swap agreements as the counterparties are established, well-capitalized financial institutions.

### ***Other resources and liquidity requirements***

We expect to continue meeting our short-term liquidity and capital requirements generally by using our working capital and net cash provided by operating activities. We believe that net cash provided by operating activities will continue to be sufficient to make the distributions necessary to enable us to continue qualifying as a real estate investment trust. We also believe that net cash provided by operations will be sufficient to fund recurring capital expenditures and leasing commissions.

We expect to meet certain long-term liquidity requirements, such as for property acquisitions, property development and redevelopment activities, scheduled debt maturities, expansions and other non-recurring capital improvements, through net cash provided by operating activities, long-term secured and unsecured indebtedness, including borrowings under our unsecured line of credit and unsecured term loan, and the issuance of additional debt and/or equity securities.



## Capital Expenditures and Leasing Costs

The following provides additional information with respect to capital expenditures and leasing costs incurred during the three months ended March 31, 2004 (dollars in thousands):

Property-related capital expenditures (1)	\$ 558
Leasing costs (2)	\$ 114
Property-related redevelopment costs (3)	\$ 19,228
Property-related development costs	\$ 6,112

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- (1) Property-related capital expenditures include all capital expenditures except capital expenditures that are recoverable from tenants, revenue-enhancing capital expenditures and costs related to the redevelopment of a property. Capital expenditures fluctuate in any given period due to the nature, extent or timing of improvements required and the extent to which they are recoverable from tenants. Approximately 90% of our leases (based on rentable square feet) provide for the recapture of certain capital expenditures (such as HVAC systems maintenance and/or replacement, roof replacement and parking lot resurfacing). In addition, we implement an active preventative maintenance program at each of our properties to minimize capital expenditures.
- (2) Leasing costs consist of tenant improvements and leasing commissions related to leasing of acquired vacant space and second generation space. Leasing costs exclude tenant improvements that are revenue-enhancing.
- (3) Includes capital expenditures recoverable from tenants of approximately \$952,000.

## Inflation

Approximately 88% of our leases (on a square footage basis) are triple net leases that require tenants to pay substantially all real estate taxes and insurance and common area and other operating expenses, including increases therein. In addition, approximately 7% of our leases (on a square footage basis) require the tenants to pay a majority of operating expenses. Approximately 94% of our leases (on a square footage basis) contain effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on the consumer price index or another index. Accordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk from inflation. An increase in inflation, however, could result in an increase in the cost of our variable rate borrowings, including our unsecured line of credit and unsecured term loan.

## Funds from Operations

GAAP basis accounting for real estate assets utilizes historical cost accounting and assumes real estate values diminish over time. In an effort to overcome the miscorrelation between real estate values and historical cost accounting for real estate assets, the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") established the measurement tool of funds from operations ("FFO"). Since its introduction, FFO has become a widely used non-GAAP financial measure by REITs. We believe that FFO is helpful to investors as an additional measure of the performance of an equity REIT. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper (the "White Paper") and related implementation guidance, which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales, plus real estate depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a relevant and widely used measure of operating performance for REITs, it should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions. (See "Cash Flows" for information regarding these measures of cash flow.) We believe that net income is the most directly comparable GAAP financial measure to FFO.

The following table presents our FFO for the three months ended March 31, 2004 and 2003 and a reconciliation of GAAP net income to FFO (in thousands):

	Three Months Ended	
	March 31,	
	2004	2003
Net income	\$ 15,340	\$ 12,149
Add		
Depreciation and amortization (1)	9,981	9,461
Subtract		
Dividends on preferred stock	(2,225)	(2,225)
(Gain) loss on sales of property (2)	(1,627)	455
Funds from operations (FFO)	<u>\$ 21,469</u>	<u>\$ 19,840</u>

- (1) Includes depreciation and amortization on assets sold or "held for sale" reflected as discontinued operations (for the periods prior to when such assets were sold or designated as "held for sale").
- (2) (Gain) loss on sales of property consist of a \$1.6 million gain related to the sale of one property in the Suburban Washington D.C. market in the first quarter of 2004 that had been designated as "held for sale" during the quarter ended December 31, 2003 and a \$455,000 loss related to the sale of one property in the San Francisco Bay market in the first quarter of 2003 that had been designated as "held for sale" during the quarter ended December 31, 2002.

## Property and Lease Information

The following table is a summary of our property portfolio as of March 31, 2004 (dollars in thousands):

	<u>Number of Properties</u>	<u>Rentable Square Feet</u>	<u>Annualized Base Rent</u>	<u>Occupancy Percentages</u>	
<b>Markets</b>					
California - Pasadena	1	31,343	\$ 526	63.3%	(1)
California - San Diego	21	938,446	26,270	95.0%	
California - San Francisco Bay	10	642,578	19,918	100.0%	
Eastern Massachusetts	10	640,317	21,929	86.8%	
New Jersey/Suburban Philadelphia	4	267,319	5,352	100.0%	
Southeast	5	259,414	3,810	76.7%	(1)
Suburban Washington D.C.	19	1,526,856	26,084	91.7%	
Washington - Seattle	6	543,780	19,458	99.8%	
Total	<u>76</u>	<u>4,850,053</u>	<u>\$ 123,347</u>	<u>93.2%</u>	(2)

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(1) All, or substantially all, of the vacant space is office or warehouse space.

(2) Excludes properties under full or partial redevelopment.

The following table provides information with respect to the lease expirations at our properties as of March 31, 2004:

<b>Year of Lease Expiration</b>	<b>Number of Expiring Leases</b>		<b>Square Footage of Expiring Leases</b>	<b>Percentage of Aggregate Portfolio Leased Square Footage</b>	<b>Annualized Base Rent of Expiring Leases (per square foot)</b>
2004	59	(1)	356,463	7.3%	\$24.21
2005	28		304,595	6.2%	\$28.70
2006	35		809,016	16.5%	\$24.55
2007	19		364,744	7.4%	\$23.69
2008	13		319,560	6.5%	\$28.13
Thereafter	55		2,761,544	56.1%	\$28.17

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(1) Includes 20 month-to-month leases for approximately 61,000 square feet.

The following table is a summary of our lease activity for the three months ended March 31, 2004 computed on a GAAP Basis and on a Cash Basis:

	<b>Number of Leases</b>	<b>Square Footage</b>	<b>Expiring Rates</b>	<b>New Rates</b>	<b>Rental Rate Changes</b>	<b>TT's/Lease Commissions Per Foot</b>	<b>Average Lease Terms</b>
<b><i>Lease Activity</i></b>							
Lease Expirations							
Cash Basis	38	499,944	\$21.17	--	--	--	--
GAAP Basis	38	499,944	\$21.78	--	--	--	--
Renewed / Releasable Space Leased							
Cash Basis	13	161,956	\$22.35	\$22.52	0.8%	\$4.25	4.7 Years
GAAP Basis	13	161,956	\$22.27	\$24.69	10.9%	\$4.25	4.7 Years
Month-to-Month Leases In Effect							
Cash Basis	16	60,784	\$21.24	\$21.28	0.2%	--	--
GAAP Basis	16	60,784	\$22.27	\$22.30	0.1%	--	--
Redeveloped/Developed/ Vacant Space Leased							
Cash Basis	10	132,939	--	\$19.58	--	\$25.48	9.1 Years
GAAP Basis	10	132,939	--	\$28.73	--	\$25.48	9.1 Years
<b><i>Lease Activity Summary</i></b>							
Excluding Month-to-Month Leases							
Cash Basis	23	294,895	--	\$21.20	--	--	--
GAAP Basis	23	294,895	--	\$26.51	--	--	--
Including Month-to-Month Leases							
Cash Basis	39	355,679	--	\$21.21	--	--	--
GAAP Basis	39	355,679	--	\$25.79	--	--	--

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which we believe we are exposed is interest rate risk, which may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

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

Our future earnings, cash flows and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. However, our interest rate swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our swap agreements in effect on March 31, 2004, we estimate that a 1% increase in interest rates on our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements, would decrease annual future earnings and cash flows by approximately \$1.1 million. We further estimate that a 1% decrease in interest rates on our unsecured line of credit and unsecured term loan, after considering the effect of our interest rate swap agreements in effect March 31, 2004, would increase annual future earnings and cash flows by approximately \$1.1 million. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease their aggregate fair value by approximately \$23.7 million. A 1% decrease in interest rates on our secured debt and interest rate swap agreements would increase their aggregate fair value by approximately \$25.0 million.

These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on March 31, 2004. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

We have exposure to equity price market risk because of our equity investments in certain publicly-traded companies and privately-held entities. We classify investments in publicly-traded companies as available-for-sale and, consequently, record them on our balance sheet at fair value with unrealized gains or losses reported as a component of comprehensive income or loss. Investments in privately-held entities are generally accounted for under the cost method because we do not influence any of the operating or financial policies of the entities in which we invest. For all investments, we recognize other than temporary declines in value against earnings in the same period the decline in value was deemed to have occurred. There is no assurance that future declines in values will not have a material adverse impact on our future results of operations. By way of example, a 10% decrease in the fair value of our equity investments as of March 31, 2004 would decrease their fair value by approximately \$4.9 million.

**Item 4. CONTROLS AND PROCEDURES**

As of March 31, 2004, we performed an evaluation, under the supervision of our chief executive officer ("CEO") and chief financial officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2004. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to March 31, 2004.

## **PART II – OTHER INFORMATION**

### **Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

#### **(a) Exhibits**

- 12.1 Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

#### **(b) Reports on Form 8-K.**

We filed a Current Report on Form 8-K, dated February 12, 2004, pursuant to which we furnished the Securities and Exchange Commission our earnings release dated February 12, 2004, regarding our fourth quarter and year ended December 31, 2003 financial results.



Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 10, 2004.

ALEXANDRIA REAL ESTATE EQUITIES, INC.

/s/ Joel S. Marcus

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Joel S. Marcus  
Chief Executive Officer  
(Principal Executive Officer)

/s/ Peter J. Nelson

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Peter J. Nelson  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)