NXP Semiconductors N.V.
Form 424B3
December 09, 2013
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The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission and is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-176435

Subject to Completion, dated December 9, 2013.

Supplement to Prospectus dated August 23, 2011.

25,000,000 Shares

Common Stock

This is an offering of 25,000,000 shares of common stock of NXP Semiconductors N.V. by the selling stockholders named in this prospectus supplement (such stockholders, including entities affiliated with directors of our company and with members of our senior management, the Selling Stockholders). See Selling Stockholders. We will not receive any proceeds from the sale of shares of common stock by the Selling Stockholders.

Our common stock is listed on the NASDAQ Global Select Market under the symbol NXPI . On December 6, 2013, the last reported sale price of our common stock on the NASDAQ Global Select Market was $44.23 per share.

Investing in shares of our common stock involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement, Risk Factors beginning on page 5 of the accompanying prospectus, and Risk Factors in our Annual Report on Form 20-F for the fiscal year ended December 31, 2012 (which document is incorporated by reference herein) and our financial statements and related notes, in order to read about factors you should consider before making a decision to invest in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial price to the public	$	$
Underwriting discount to be paid by the Selling Stockholders	$	$
Proceeds, before expenses, to the Selling Stockholders	$	$

The underwriters expect to deliver the shares of common stock through the facilities of the Depository Trust Company against payment thereof on or about December , 2013.

Joint Book-Running Managers

Barclays **Credit Suisse**

Prospectus Supplement dated December , 2013.

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Prospectus

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We have not and the underwriters have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference herein or in any free writing prospectuses prepared by us or on behalf of us to which we have referred you. We and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement is an offer to sell only the shares of common stock offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement is current only as of its date. Our business, financial condition, results of operation and prospects may have changed since that date.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document has two parts, a prospectus supplement and an accompanying prospectus dated August 23, 2011. This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the SEC, utilizing the SEC s shelf registration process. The prospectus supplement, which describes certain matters relating to us and the specific terms of this offering of shares of common stock, adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference herein. Generally, when we refer to this document, we are referring to both parts of this document combined. Both this prospectus supplement and the accompanying prospectus include important information about us, our shares of common stock and other information you should know before investing in our common stock. The accompanying prospectus gives more general information, some of which may not apply to the shares of common stock offered by this prospectus supplement and the accompanying prospectus. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus, you should rely on the information contained in this prospectus supplement. If the information contained in this prospectus supplement differs or varies from the information contained in a document we have incorporated by reference, you should rely on the information in the more recent document.

Before you invest in our common stock, you should read the registration statement of which this document forms a part and this document, including the documents incorporated by reference herein that are described under the heading Incorporation by Reference.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the shares of common stock in certain jurisdictions may be restricted by law. We are not making an offer of the common stock in any jurisdiction where the offer is not permitted. Persons who come into possession of this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

You should not consider any information in this prospectus supplement or the accompanying prospectus to be investment, legal or tax advice. You should consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding the purchase of the common stock. We are not making any representation to you regarding the legality of an investment in the common stock by you under applicable investment or similar laws.

In this prospectus supplement, unless otherwise indicated or the context otherwise requires, references to NXP, the Company, we, us and our refer to NXP Semiconductors N.V. and its subsidiaries. References to the IPO refer to our initial public offering on the NASDAQ Global Select Market on August 5, 2010 of 34,000,000 shares of our common stock. References to the Selling Stockholders refer to the Selling Stockholders listed in the table under the caption Selling Stockholders in this prospectus supplement.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Certain important business and financial information about us is not included in this prospectus supplement or the accompanying prospectus, but has been incorporated by reference. This means that we can disclose important information to you by referring you to another document filed with or furnished to the SEC. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus and information that we file with or furnish in the future to the SEC will, to the extent it is incorporated by reference herein, automatically update and supersede, as appropriate, this information.

This prospectus supplement and the accompanying prospectus incorporate by reference the documents listed below that we have previously filed with or furnished to the SEC:

- Our Interim Reports on Form 6-K for the period ended March 31, 2013, furnished to the SEC on May 6, 2013 (our Q1 2013 Interim Report), for the period ended June 30, 2013, furnished to the SEC on August 2, 2013 (our Q2 2013 Interim Report) and for the period ended September 29, 2013, furnished to the SEC on November 1, 2013 (our Q3 2013 Interim Report); and

- Our Annual Report on Form 20-F for the fiscal year ended December 31, 2012, filed with the SEC on March 1, 2013, as amended by the Amendment No. 1, filed with the SEC on March 27, 2013 (our 2012 Annual Report).

We also incorporate by reference all documents that we file with or furnish to the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act) after the date of this prospectus supplement from their respective dates of filing or furnishing, as the case may be, so long as any future reports on Form 6-K that we furnish to the SEC identify that they are incorporated by reference into the Registration Statement of which this prospectus supplement and the accompanying prospectus form part and until all the shares of the common stock to which this prospectus supplement relates are sold or the offering is otherwise terminated.

We will provide without charge to any person, including any beneficial owners, to whom a prospectus supplement and the accompanying prospectus is delivered, upon written or oral request, a copy of any or all the documents and reports described above and incorporated by reference into this prospectus supplement and the accompanying prospectus (other than exhibits to such documents, unless such documents are specifically incorporated by reference). Any such request may be made by writing or by telephoning us at the following address or phone number:

NXP Semiconductors N.V.

Attn: Legal Department	Attn: Investor Relations, Mr. Jeff Palmer
High Tech Campus 60	411 E. Plumeria Drive
5656 AG Eindhoven	San Jose CA 95134
The Netherlands	USA
Telephone: +31 40 2729233	Telephone: +1 408 518 5411

The documents incorporated by reference into this prospectus supplement and the accompanying prospectus can also be requested through, and are available in, the Investor Relations section of our website, which is located at www.nxp.com. The reference to our website address does not constitute incorporation by reference of the information contained in our website. We have not authorized anyone else to provide you with different information.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information presented in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus include forward-looking statements. When used in, or incorporated by reference into, this document, the words anticipate, believe, estimate, forecast, expect, intend, plan and project and similar expressions, as they relate to us, our management or third parties, identify forward-looking statements. Forward-looking statements include statements regarding our business strategy, financial condition, results of operations and market data, as well as any other statements that are not historical facts. These statements reflect beliefs of our management, as well as assumptions made by our management and information currently available to us. Although we believe that these beliefs and assumptions are reasonable, these statements are subject to numerous factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected. These factors, risks and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf and include, in addition to those listed under Risk Factors and those included elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, the following:

- market demand and semiconductor industry conditions;
- our ability to successfully introduce new technologies and products;
- the demand for the goods into which our products are incorporated;
- our ability to generate sufficient cash, raise sufficient capital or refinance our debt at or before maturity to meet both our debt service and research and development and capital investment requirements;
- our ability to accurately estimate demand and match our production capacity accordingly;
- our ability to obtain supplies from third-party producers;
- our access to production from third-party outsourcing partners, and any events that might affect their business or our relationship with them;
- our ability to secure adequate and timely supply of equipment and materials from suppliers;
- our ability to avoid operational problems and product defects and, if such issues were to arise, to rectify them quickly;
- our ability to form strategic partnerships and joint ventures and successfully cooperate with our alliance partners;
- our ability to win competitive bid selection processes;
- our ability to develop products for use in our customers equipment and products;

our ability to successfully hire and retain key management and senior product engineers; and

our ability to maintain good relationships with our suppliers.

In addition, this prospectus supplement and the accompanying prospectus contain or incorporate by reference information concerning the semiconductor industry and our market and business segments generally, which is forward-looking in nature and is based on a variety of assumptions regarding the ways in which the semiconductor industry and our market and business segments will develop. We have based these assumptions on information currently available to us, including through the market research and industry reports referred to in this prospectus supplement, the accompanying prospectus or any of the documents incorporated by reference herein. Although we believe that this information is reliable, we have not independently verified and cannot guarantee its accuracy or completeness. If any one or more of these assumptions turn out to be incorrect, actual market results may differ from those predicted. While we do not know what impact any such differences may have on our business, if there are such differences, they could have a material adverse effect on our future results of operations and financial condition, and the trading price of our common stock.

These and other factors are discussed in more detail under Risk Factors and elsewhere in our 2012 Annual Report, which is incorporated by reference herein. We do not assume any obligation to update any forward-looking statements and disclaim any obligation to update our view of any risks or uncertainties described or incorporated by reference herein or to publicly announce the result of any revisions to the forward-looking statements made in, or incorporated by reference into, this prospectus supplement, except as required by law.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained elsewhere in, or incorporated by reference into, this prospectus supplement or the accompanying prospectus. The information set forth in this summary does not contain all of the information that you should consider before investing in shares of our common stock. You should carefully read this entire prospectus supplement and the accompanying prospectus, including the factors described or referred to under the heading Risk Factors herein and in our 2012 Annual Report, as well as the financial statements and related notes and other information incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. This summary contains forward-looking statements that contain risks and uncertainties. Our actual results may differ significantly from future results as a result of factors such as those set forth in Risk Factors and Forward-Looking Statements.

Our Company

We are a global semiconductor company and a long-standing supplier in the industry, with over 50 years of innovation and operating history. We provide leading High-Performance Mixed-Signal and Standard Products solutions that leverage our deep application insight and our technology and manufacturing expertise in radio frequency, analog, power management, interface, security and digital processing products. Our product solutions are used in a wide range of application areas including: automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer, computing and software solutions for mobile phones. We engage with leading original equipment manufacturers (OEMs) worldwide. For the twelve months ended September 29, 2013, 64% of our revenue was derived from Asia Pacific (excluding Japan). Since our separation from Koninklijke Philips Electronics N.V. (Philips) in 2006, we have significantly repositioned our business to focus on High-Performance Mixed-Signal solutions and implemented several restructuring initiatives, including between 2008 and 2011 a redesign program (the Redesign Program), aimed at achieving a world-class cost structure and processes. As of September 29, 2013, we had approximately 25,600 full-time equivalent employees located in more than 25 countries, with research and development activities in Asia, Europe and the U.S., and manufacturing facilities in Asia and Europe.

For the twelve months ended September 29, 2013, we generated revenue of $4,638 million and operating income of $486 million.

The NXP Solution

We design and manufacture High-Performance Mixed-Signal semiconductor solutions to meet the challenging requirements of systems and sub-systems in our target markets. High-Performance Mixed-Signal solutions are an optimized mix of analog and digital functionality integrated into a system or sub-system. These solutions are fine-tuned to meet the specific performance, cost, power, size and quality requirements of applications. High-Performance Mixed-Signal solutions alleviate the need for OEMs to possess substantial system, sub-system and component-level design expertise required to integrate discrete components into an advanced fully functional system. We have what we believe is an increasingly uncommon combination of capabilities our broad range of analog and digital technologies, application insights and world-class process technology and manufacturing capabilities to provide our customers with differentiated solutions that serve their critical requirements. Customers often engage with us early, which allows us to hone our understanding of their application requirements and future product roadmaps and to become an integral partner in their system design process. Within our High-Performance Mixed-Signal segment we have four business units, a business unit focusing on solutions for portable and computing, a business unit focusing on solutions for industrial and infrastructure, a business unit focusing on solutions for automotive and a business unit focusing on solutions for identification.

Our Strengths

We believe we have a number of strengths that create the opportunity for us to be a leader in our target markets. Some of these strengths include:

- **Market-leading products**. For the year ended December 31, 2012, approximately 80% of our High-Performance Mixed-Signal sales and 73% of our Standard Products sales were generated by products for which we held a top three market position based on product sales.

Strong intellectual property portfolio. We have an extensive intellectual property portfolio of approximately 9,400 issued and pending patents covering the key technologies used in our target application areas.

Deep applications expertise. We have built, and continue to build, through our relationships with leading OEMs and through internal development efforts in our advanced systems lab, deep insight into the component requirements and architectural challenges of electronic system solutions in our target end-market applications, thereby enhancing our engagement in our customers product platforms. The fact that we have dedicated business units within our High-Performance Mixed-Signal segment underlines this.

Strong, well-established customer relationships. We have strong, well-established relationships with almost every major automotive, identification, mobile handset, consumer electronics, mobile base station and lighting supplier in the world. Some of our top OEM customers, in terms of revenue, include Apple, Bosch, Continental Automotive, Giesecke/Devrient, Ericsson, Harman/Becker, Huawei, Nokia, Nokia Siemens Networks, Oberthur, Panasonic, Philips, Samsung, Sony, Visteon and ZTE. We also serve customers through our distribution partners.

Differentiated process technologies and competitive manufacturing. We focus our internal and joint venture wafer manufacturing operations on running a portfolio of proprietary specialty process technologies that enable us to differentiate our products on key performance features. By concentrating our manufacturing activities in Asia and by significantly streamlining our operations through our Redesign Program, we believe we have a competitive manufacturing base.

NXP Repositioning and Redesign

Since our separation from Philips in 2006, we have significantly repositioned our business and market strategy. Further, between 2008 and 2011, we executed our Redesign Program to better align our costs with our more focused business scope, and in November 2012 we announced the introduction of an operating expenses (OPEX) reduction program focusing specifically on selling, general and administrative expenses and aimed at finding ways to run our company more efficiently in our cyclical industry. Key elements of our repositioning and redesign are:

Our Repositioning

New leadership team. Ten of the thirteen members of our executive management team have been recruited from outside NXP. Prior to joining NXP, our chief executive officer, Rick Clemmer, and chief financial officer, Peter Kelly, played leading roles in a program that significantly enhanced the performance of Agere Systems Inc. (Agere). Ruediger Stroh, our executive vice president and general manager High-Performance Mixed-Signal identification, joined us from LSI Corporation and previously Agere, where he helped to turn around the hard disk-drive business. Alexander Everke, our executive vice president and general manager High-Performance Mixed-Signal industrial and infrastructure came to us from Infineon Technologies AG (Infineon), where he led the global sales organization and helped to restructure the company s go-to-market model. Dave French, our executive vice president and general manager of High-Performance Mixed-Signal portable and computing, joined in April 2012 with more than 30 years of experience in the semiconductor industry, having served as president and CEO of Cirrus Logic. Loh Kin Wah, our executive vice president of sales, was previously President and CEO of Qimonda AG, and prior to that responsible for the Communication Business Group and subsequently the Memories Product Group at Infineon. Chris Belden, our executive vice president operations, implemented the manufacturing redesign program of Freescale Semiconductor, Inc. (Freescale), formerly part of Motorola, Inc., between 2002 and 2005. Sean Hunkler, executive vice president of our operations, sharing responsibility with Mr. Belden for managing our operations, joined in July 2012 with more than 28 years of experience in the semiconductor and materials industries in the U.S. and Asia, including leading roles in internal and external manufacturing operations for MEMC Electronic Materials, Inc. and Freescale. Hai Wang joined us in July 2010, after having held senior executive positions in several leading semiconductor companies, including LSI Corporation, Agere Systems and Flextronics Semiconductors. Effective September 1, 2013, Hai Wang became the new head of our research and development department.

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Focus on High-Performance Mixed-Signal solutions. We have implemented our strategy of focusing on High-Performance Mixed-Signal solutions because we believe it to be an attractive market in terms of growth, barriers to entry, relative market share, relative business and pricing stability, and capital intensity. Several transactions have been core to our strategic realignment and focus on High-Performance Mixed-Signal: in July 2008, we contributed our wireless activities to the ST-NXP Wireless joint venture (our stake in which was subsequently sold, with the business being renamed ST-Ericsson); and in February 2010, we merged our television systems and set-top box business with Trident Microsystems, Inc. (Trident). Our primary motivations for exiting the system-on-chip markets for wireless activities and consumer applications were the significant research and development investment requirements and high customer concentration inherent in these markets. In addition, we sold two non-semiconductor component businesses. In July 2011, we sold our Sound Solutions business (formerly included in our Standard Products segment), which makes mobile speakers and receivers, to Knowles Electronics, an affiliate of Dover Corporation. This has enabled us to significantly increase our research and development investments in the High-Performance Mixed-Signal applications on which we focus. To further strengthen our High Performance Mixed Signal position, we have made a number of acquisitions in recent years, such as the acquisition on July 21, 2010 of Jennic Ltd., a developer of low power RF solutions for wireless applications. On April 12, 2012 we acquired Catena Holding B.V., a design and IP company, specialized in radio frequency communication, analog, mixed signal and digital signal processing.

New customer engagement strategy. We have implemented a new approach to serving our customers and have invested significant additional resources in our sales and marketing organizations. We have created application marketing teams that focus on delivering solutions that include as many suitable NXP components as possible in their system reference designs, which helps us achieve greater cross-selling between our various product lines, while helping our customers accelerate their time to market. With the increased number of application engineers and our applications marketing approach, we are able to engage with more design locations ranging from our largest, highest volume customers to the mid-size customers who typically have lower volumes but more attractive margins.

Our Redesign

Streamlined cost structure. As a result of our Redesign Program, we have achieved between 2008 and 2011 manufacturing and operating cost savings through a combination of headcount reductions, factory closings and restructuring of our IT infrastructure.

Leaner manufacturing base. As a part of our Redesign Program, we have significantly reduced our overall manufacturing footprint, particularly in high-cost geographies. Our current manufacturing strategy focuses on capabilities that differentiate NXP in terms of product features, process capabilities, cost, supply chain and quality. Accordingly, we have closed or sold a number of facilities, including but not limited to, the sale of our wafer factory in Caen, France in June 2009, the closure of our production facility in Fishkill, New York in July 2009, the closure of part of our front-end manufacturing in Hamburg, Germany in January 2010, and the closure of our ICN5 facility in Nijmegen, the Netherlands at the end of 2010. As a result, we have reduced the number of our front-end manufacturing facilities from fourteen at the time of our separation from Philips in 2006 to six by the end of 2012. Also, since the fourth quarter of 2011 we have taken steps for the closure of the ICN4 and ICN6 wafer fabs in Nijmegen, the Netherlands, which will be substantially completed in the fourth quarter of 2013.

Operating Expenses (OPEX) Reduction Program. We are currently working towards optimizing future business growth from a sustainable foundation. In November 2012, we announced the introduction of our OPEX Reduction Program, focusing specifically on Selling, General and Administrative expenses and aimed at finding ways to run our company more efficiently in our cyclical industry. The objective of the OPEX Reduction Program is to bring these expenditures down to 12% of our revenue, meaning around two percentage points lower for the fiscal year ending December 31, 2013, compared to 2012.

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Our Strategy

Our strategy is to be the leading provider of High-Performance Mixed-Signal solutions, supported by a strong Standard Products business, addressing our priority application areas. Key elements of this strategy are:

Extend our leadership in High-Performance Mixed-Signal markets. We intend to leverage our industry-leading RF, analog, power management, interface, security and digital processing technologies and capabilities to extend our leadership positions in providing High-Performance Mixed-Signal solutions for automotive, identification, wireless infrastructure, lighting, industrial, mobile, consumer and computing applications. Based on a combination of external and internal sources, we estimate that the consolidated market size of these addressed High-Performance Mixed-Signal markets was $17 billion in 2012.

Focus on significant, fast growing opportunities. We are focused on providing solutions that address the macro trends of energy efficiency, mobility and connected mobile devices, security and healthcare, as well as rapid growth opportunities in emerging markets given our increasing market share in Asia Pacific (excluding Japan), which represented 62% of our revenue for the year ended December 31, 2012.

Deepen relationships with our key customers through our application marketing efforts. We intend to increase our market share by focusing on and deepening our customer relationships, further growing the number of our field application engineers at our customers sites and increasing product development work we conduct jointly with our lead customers. We have dedicated business units within our High-Performance Mixed-Signal segment to help cultivate key customer relationships.

Expand gross and operating margins. We continue to actively consider operational improvement programs aimed at accelerating revenue growth, expanding gross margins and improving overall profitability through better operational execution and streamlining of our cost structure.

Recent Developments

On October 10, 2013, an extraordinary general meeting of NXP resolved to appoint Dr. Marion Helmes and Julie Southern as non-executive directors to the board of directors. Both Dr. Helmes and Ms. Southern are also appointed as members of the board s Audit Committee. Dr. Helmes is Chief Financial Officer and speaker of the management board of pharmaceutical company Celesio AG. Prior to joining Celesio, Dr. Helmes was Chief Financial Officer of Q-Cells SE and held various management roles at ThyssenKrupp AG. Ms. Southern is a former Chief Financial Officer and Chief Commercial Officer of Virgin Atlantic Ltd., the UK s second largest long-haul airline; prior to that, she was chartered accountant at Price Waterhouse.

Vikram Bhatia, who was originally nominated to the board by the Philips UK Pension Fund (PPTL) in May 2011, has resigned as of October 10, 2013 as non-executive director due to PPTL no longer holding shares in NXP.

On October 15, 2013, NXP repaid of all of its outstanding $422 million 9.75% senior secured notes.

On November 28, 2013, NXP agreed a repricing of its Tranche C secured term loans, pursuant to which such loans are to be refinanced with Tranche D loans bearing a margin of LIBOR plus 2.5%.

Immediately following this Offering it is expected that Egon Durban and Roy Mackenzie will resign from NXP s board of directors due to the decreased shareholdings of funds advised by Silver Lake and Apax, respectively. It has not yet been decided whether Mr. Durban and Mr. Mackenzie will be replaced by new directors.

COMPANY INFORMATION

We were incorporated in the Netherlands as a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under the name KASLION Acquisition B.V. on August 2, 2006, in connection with the sale by Philips of 80.1% of its semiconductor business on September 29, 2006, to a consortium of funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR), Bain Capital Partners, LLC (Bain), Silver Lake Technology Management, L.L.C. (Silver Lake), Apax Partners LLP (Apax) and AlpInvest Partners B.V. (AlpInvest, and, collectively, the Private Equity Consortium). For a list of the specific funds that hold our common stock and their respective share ownership, see Selling Stockholders elsewhere in this prospectus supplement. On May 21, 2010, we converted from a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) into a Dutch public company with limited liability (*naamloze vennootschap*) and changed our name from KASLION Acquisition B.V. to NXP Semiconductors N.V. On August 5, 2010, we made an initial public offering and listed on the NASDAQ Global Select Market.

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We had one class of shares of common stock and an aggregate of 251,751,500 shares of common stock outstanding as of November 30, 2013, of which 25,000,000 are to be sold by the Selling Stockholders as part of this offering.

We are a holding company whose only material assets are the direct ownership of 100% of the shares of NXP B.V., a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*).

Our corporate seat is in Eindhoven, the Netherlands. Our principal executive office is at High Tech Campus 60, 5656 AG Eindhoven, the Netherlands, and our telephone number is +31 40 2729233. Our website address is www.nxp.com. The information contained on our website or that can be accessed through our website neither constitutes part of this prospectus supplement nor is incorporated by reference herein.

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THE OFFERING

The following summary of the offering contains basic information about the offering and the common stock and is not intended to be complete. It does not contain all the information that may be important to you. For a more complete understanding of the common stock, please refer to the section of the accompanying prospectus entitled Description of Common Stock.

Common stock offered by the Selling Stockholders	25,000,000 shares of common stock, par value 0.20 per share.
Selling Stockholders	The Selling Stockholders include the members of the Private Equity Consortium and certain co-investors thereof. Some of the Selling Stockholders are affiliated with directors of the Company, and with members of our senior management. See Selling Stockholders.
Use of proceeds	We will not receive any proceeds from this sale of shares by the Selling Stockholders.
Dividend policy	Our ability to pay dividends on our common stock is limited by the covenants of our secured revolving credit agreement dated April 27, 2012 (the Revolving Credit Agreement), the secured term credit agreement that we entered into on March 4, 2011 (the 2017 Term Loan) and the joinder agreement to the secured term credit agreement that we entered into on December 10, 2012 (the 2020 Term Loan and, together with the 2017 Term Loan, the Term Loans) and the indentures (collectively, the Indentures) governing the terms of our U.S. dollar-denominated 5.75% senior notes due February 15, 2021 (the 2021 Unsecured Notes), our U.S. dollar-denominated 5.75% senior notes due March 15, 2023 (our 2023 Unsecured Notes), our U.S. dollar-denominated 3.5% senior notes due September 15, 2016 (the 2016 Unsecured Notes) and our U.S. dollar-denominated 3.75% senior notes due June 1, 2018 (our 2018 Unsecured Notes, and together with the 2016 Unsecured Notes, the 2021 Unsecured Notes and the 2023 Unsecured Notes, the Unsecured Notes), and may be further restricted by the terms of any future debt or preferred securities. As a result, we currently expect to retain future earnings for use in the operation and expansion of our business and the repayment of our debt and do not anticipate paying any cash dividends in the foreseeable future. See Dividend Policy.
Risk factors	You should carefully read and consider the information set forth under Risk Factors herein, in the accompanying prospectus and in the documents incorporated by reference herein, including our 2012 Annual Report, before investing in our common stock.
NASDAQ Global Select Market symbol	NXPI

The number of shares of common stock that will be outstanding after this offering is calculated based on 251,751,500 shares outstanding as of November 30, 2013 and excludes stock options and other rights to shares, outstanding as of November 30, 2013 and representing in total 27,183,752 shares of common stock. A number of 8,857,033 of such shares of common stock relate to so-called management equity plan stock options (MEP Options) and are now fully exercisable. If MEP Options owned by former employees are not exercised within a period to be specified by us, which is expected to be December 19, 2013, such MEP Options will become null and void; current employees owning MEP Options may exercise such MEP Options during the period of five years as of this offering, subject to these employees remaining employed by

us.

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The number of 27,183,752 shares of common stock representing the stock options and other rights to shares outstanding as of November 30, 2013, can be described as follows:

- 19,367,294 shares of common stock underlying stock options outstanding as of November 30, 2013, of which 8,857,033 were MEP Options at a weighted average exercise price of 29.56 (or $40.22 based on the exchange rate as of November 30, 2013) per share and 10,510,261 were stock options (LTIP Options) at a weighted average exercise price of $22.69. Of these MEP Options, 3,311,603 are held by former employees and will expire during the course of 2013, and 5,545,430 are held by current employees and are exercisable during a period of five years as of this offering, subject to these employees remaining employed by us; and

- 7,816,458 shares of common stock underlying performance and restricted share units outstanding as of November 30, 2013.

RISK FACTORS

Elsewhere in this prospectus supplement and the accompanying prospectus we have described several categories of risks that affect our business. These include risks related to this offering and ownership of our common stock that can affect your investment in the shares of our common stock. You should read the Risk Factors beginning on page S-11 of this prospectus supplement, beginning on page 5 of the accompanying prospectus, and in our 2012 Annual Report (which document is incorporated by reference herein) and our financial statements and related notes, for a more detailed explanation of these and other risks.

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CORPORATE STRUCTURE

The following chart reflects our corporate structure as of September 29, 2013.

(1) Includes the Private Equity Consortium.

(2) As of September 29, 2013, 19,829,450 shares of common stock underlying stock options were outstanding. Furthermore, we had an aggregate of 7,202,383 shares of common stock underlying performance and restricted share units outstanding as of September 29, 2013. As of November 30, 2013, 19,367,294 shares of common stock underlying stock options were outstanding. Furthermore, we had an aggregate of 7,816,458 shares of common stock underlying performance and restricted share units outstanding as of November 30, 2013.

(3) As of September 29, 2013, we had no borrowings under the Revolving Credit Agreement.

(4) As of September 29, 2013, we had $986 million of borrowings under the Term Loans.

(5) As of September 29, 2013, $2,250 million aggregate principal amount of Unsecured Notes (as defined herein) were outstanding.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table summarizes our historical consolidated financial data at the dates and for the periods indicated. The summary historical consolidated financial data as of December 31, 2011 and 2012 and for each of the years in the three-year period ended December 31, 2012, have been derived from our audited consolidated financial statements, incorporated by reference into this document. The summary historical consolidated financial data as of and for the nine months ended September 30, 2012 and September 29, 2013 have been derived from our unaudited interim consolidated financial statements, incorporated by reference into this document. In the opinion of our management, such unaudited financial data reflect all adjustments necessary for a fair presentation of the results for those periods. The first fiscal nine months of 2012 consisted of 274 days and ended on September 30, 2012 compared to the first fiscal nine months of 2013, which consisted of 272 days and ended on September 29, 2013.

The results of operations for prior years are not necessarily indicative of the results to be expected for any future period. We prepare our financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP). The summary historical consolidated financial data should be read in conjunction with the Operating and Financial Review and Prospects, in our 2012 Annual Report, the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Q1 2013 Interim Report, the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Q2 2013 Interim Report and the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Q3 2013 Interim Report and the consolidated financial statements and accompanying notes incorporated by reference into this document.

For the years ended December 31, 2010
($ in millions unless otherwise indicated)

In January 2007, we completed a private offering of $460 million of 3.70% convertible unsecured notes due in 2

bligations as of December 31, 2006 included leases for fourteen of our properties and two land development parcels. These lease obligat
lease terms of 26 to 58 years, exclusive of extension options. Included in our ground lease obligations as of December 31, 2006 is a gro
r ground-up development project in New York City totaling approximately 725,000 rentable square feet. This ground lease obligation h
remaining term of 99 years, inclusive of extension opti

the above, we were committed as of December 31, 2006 under the terms of contracts to complete the construction of properties underg
development and land held for development at a remaining aggregate cost of $58.8 mil

, 2006, we were also committed to fund approximately $33.7 million for the construction of building infrastructure improvements under terms of leases and/or construction contracts and approximately $23.4 million for certain investm

Tenant security deposits and other restricted

Tenant security deposits and other restricted cash consisted of the following (in thousan

	December 31, 2006	December 31, 2005
l in trust under the terms of n secured notes payable	$ 20,071	$ 13,838
ls held in escrow	14,289	7,175
	$ 34,360	$ 21,013

Secured notes pay

es payable totaled $1.2 billion and $666.7 million as of December 31, 2006 and 2005, respectively. Our secured notes payable had weig rest rates of 6.21% and 6.31% at December 31, 2006 and 2005, respectively, with maturity dates ranging from March 2007 to August 2

ayable generally require monthly payments of principal and interest. The total book values of properties securing debt were $1.7 billion December 31, 2006 and 2005, respectively. At December 31, 2006, our secured notes payable were comprised of $940.0 million and $2 and variable rate debt, respectively, compared to $595.9 million and $70.8 million of fixed and variable rate debt, respectively, at Decem 31, 2

summary of the scheduled principal payments for our secured notes payable and the weighted average interest rates as of December :

Year	Amount	Weighted Average Interest Rate(1)
2007	$ 72,790	6.21%
2008	290,088	6.17%
2009	45,986	6.26%
2010	93,259	6.23%
2011	108,204	6.09%
Thereafter	564,539	6.00%
Total secured notes payable	$ 1,174,866	

) The weighted average interest rate related to our secured debt is calculated based on the outstanding debt as of December 31st of the immediately preceding the year preser

Unsecured line of credit and unsecured term

006, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under facilities from $1.0 billion to $1.4 billion consisting of a $800 million unsecured line of credit and a $600 million unsecured term loan.

may in the future elect to increase commitments under the unsecured credit facilities by up to an additional $500 mil

r our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the highe eference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three o ecured line of credit matures in October 2010 and may be extended at our sole option for an additional one-year period. As of Decembe 2006, we had borrowings of $250 million outstanding on the unsecured line of credit with a weighted average interest rate of 6.5

erm loan bears interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and rate plus 0.5%. For each LIBOR-based advance, we must elect to fix for a period of one, two, three or six months. Our unsecured term tober 2011 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $ million outstanding on the unsecured term loan with a weighted average interest rate of 6.5

ine of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net wor nd a fixed charge coverage ratio. In addition, the terms of the unsecured line of credit and unsecured term loan restrict, among other thi certain investments, indebtedness, distributions and merg

wings under our unsecured line of credit and unsecured term loan may be limited to an amount based primarily on the net operating inc pool of unencumbered properties. Accordingly, as we complete the redevelopment, development or acquisition of additional unencumb rties, aggregate unsecured borrowings available under our credit facilities may increase up to a maximum combined amount of $1.4 bil

Interest rate sw

rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit m loan. These agreements involve an exchange of fixed and floating rate interest payments without the exchange of the underlying princ otional amount"). Interest received under all of our swap agreements is based on the one-month LIBOR rate. The net difference betwee interest paid and the interest received is reflected as an adjustment to interest expe

The following table summarizes our interest rate swap agreements as of December 31, 2006 (dollars in thousands

Dates	Effective Dates	Notional Amounts	Effective at December 31, 2006	Interest Pay Rates	Termination Dates	Fair Values
03	December 29, 2006	$ 50,000	$ 50,000	5.090%	October 31, 2008	$ (44)
	April 28, 2006	50,000	50,000	4.230%	April 30, 2007	174
	April 30, 2007	50,000	--	4.850%	April 30, 2008	106
	June 30, 2005	50,000	50,000	4.343%	June 30, 2007	232
04	December 31, 2004	50,000	50,000	3.590%	January 2, 2008	864
04	January 3, 2006	50,000	50,000	3.927%	July 1, 2008	909
	June 30, 2006	50,000	50,000	4.270%	June 29, 2007	253
	November 30, 2006	25,000	25,000	4.330%	November 30, 2007	201
	June 29, 2007	50,000	--	4.400%	June 30, 2008	291
	November 30, 2007	25,000	--	4.460%	November 28, 2008	97
	June 30, 2008	50,000	--	4.509%	June 30, 2009	151
	November 28, 2008	25,000	--	4.615%	November 30, 2009	49
05	December 29, 2006	50,000	50,000	4.730%	November 30, 2009	314

05	December 29, 2006	50,000	50,000	4.740%	November 30, 2009	300
05	January 2, 2008	50,000	--	4.768%	December 31, 2010	106
	June 30, 2006	125,000	125,000	5.299%	September 30, 2009	(1,075)
	October 31, 2008	50,000	--	5.340%	December 31, 2010	(469)
	October 31, 2008	50,000	--	5.347%	December 31, 2010	(476)
	June 30, 2008	50,000	--	5.325%	June 30, 2010	(446)
	June 30, 2008	50,000	--	5.325%	June 30, 2010	(446)
06	December 31, 2006	50,000	50,000	4.990%	March 31, 2014	(10)
06	June 29, 2007	50,000	--	4.920%	October 31, 2008	19
06	November 30, 2009	75,000	--	5.015%	March 31, 2014	(24)
06	November 30, 2009	75,000	--	5.023%	March 31, 2014	(44)
06	December 31, 2010	100,000	--	5.015%	October 31, 2012	8
nal Amount in Effect at December 31, 2006			$ 600,000			$ 1,040

ber 31, 2006, we had one additional interest rate swap agreement with a notional amount of $28,500,000. This interest rate swap agreer
interest pay rate of 5.003%, is effective on January 2, 2007, terminates on January 3, 2011 and has a fair value as of December 31, 200
approximately $(67,0

o not believe we are exposed to a significant amount of credit risk in our interest rate swap agreements as our counterparties are establis
alized financial institutions. In addition, we have entered into master derivative agreements with each counterparty. These master deriva
which are on the standard International Swaps & Derivatives Association, Inc. form) define certain terms between us and each counterp
to address and minimize certain risks associated with our swap agreements, including a default by a counterpa

nber 31, 2006 and 2005, our interest rate swap agreements were classified in other assets and accounts payable, accrued expenses and te
at their fair values aggregating approximately $973,000 and $4.9 million, respectively, with the offsetting adjustment reflected as unreal
ed other comprehensive income in stockholders' equity. Balances in accumulated other comprehensive income are recognized in earning
nts are made. During the next twelve months, we expect to reclassify $3.1 million from accumulated other comprehensive income to inte
inco

Other resources and liquidity requirem

2006, we sold 3,795,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwri
on). The shares were issued at a price of $84.00 per share, resulting in aggregate proceeds of approximately $303.1 million (after deduc
underwriting discounts and other offering co

6, we sold 2,500,000 shares of our common stock in a follow-on offering. The shares were issued at a price of $94.75 per share, resultir
aggregate proceeds of approximately $232.2 million (after deducting underwriting discounts and other offering co

we entered into an amendment to our existing amended and restated credit agreement. The maximum permitted unsecured borrowings u
s was increased from $1 billion to $1.4 billion consisting of a $800 million unsecured line of credit and a $600 million unsecured term l
We may in the future elect to increase commitments under our unsecured credit facilities by up to an additional $500 mil

ontinue meeting our short-term liquidity and capital requirements generally through our working capital and net cash provided by opera
lieve that the net cash provided by operating activities will continue to be sufficient to enable us to make distributions necessary to cont
as a REIT. We also believe that net cash provided by operating activities will be sufficient to fund recurring non-revenue enhancing ca
expenditures, tenant improvements and leasing commissi

et certain long-term liquidity requirements, such as for property acquisitions, property development and redevelopment activities, sched
pansions and other non-recurring capital improvements, through net cash provided by operating activities, long-term secured and unsec
ncluding borrowings under the unsecured line of credit and unsecured term loan, and the issuance of additional debt and/or equity securi

Exposure to environmental liabil

the acquisition of all of our properties, we have obtained Phase I environmental assessments to ascertain the existence of any environme
sues. The Phase I environmental assessments of our properties have not revealed any environmental liabilities that we believe would ha
fect on our financial condition or results of operations taken as a whole, nor are we aware of any material environmental liabilities that
Phase I environmental assessments were completed. In addition, we carry a policy of pollution legal liability insurance covering exposu
certain environmental losses at all of our proper

Capital expenditures, tenant improvements and leasing c

table shows total and weighted average per square foot property-related capital expenditures, tenant improvements and leasing costs (a
e added to the basis of the properties) related to our life science properties (excluding capital expenditures and tenant improvements tha
enants, revenue-enhancing or related to properties that have undergone redevelopment) for the years ended December 31, 2006, 2005, 2
2003 and 2

	Total/ Weighted Average	2006	2005	2004	2003	2002
enditures (1):						
pital expenditures	$ 6,766,000	$ 575,000	$ 972,000	$2,628,000 (2)	$1,632,000 (3)	$ 959,000
g capital expenditures	$ 5,485,000	$ 639,000	$ 1,278,000	$1,243,000	$ 853,000	$1,472,000 (4)
average square feet tfolio	35,251,118	9,790,326	8,128,690	6,123,807	5,708,635	5,499,660
hted average square n portfolio						
pital expenditures	$ 0.19	$ 0.06	$ 0.12	$ 0.43 (2)	$ 0.29 (3)	$ 0.17
g capital expenditures	$ 0.16	$ 0.07	$ 0.16	$ 0.20	$ 0.15	$ 0.27 (4)
ovements and leasing						
d space (5)						
improvements and ng costs	$ 5,795,000	$1,370,000	$ 324,000	$ 713,000	$2,890,000	$ 498,000
ted square feet	1,089,677	248,846	130,887	142,814	248,488	318,642
are foot leased of anted space	$ 5.32	$ 5.51	$ 2.48	$ 4.99	$ 11.63	$ 1.56
pace						
improvements and ng costs	$ 3,303,000	$ 957,000	$ 778,000	$ 937,000	$ 105,000	$ 526,000
square feet	2,208,126	455,980	666,058	558,874	271,236	255,978
are foot leased of al space	$ 1.50	$ 2.10	$ 1.17	$ 1.68	$ 0.39	$ 2.05

erty-related capital expenditures include all major capital and recurring capital expenditures except capital expenditures that are recover
ts, revenue-enhancing capital expenditures, or costs related to the redevelopment of a property. Major capital expenditures consisted of
nents and HVAC systems that are typically identified and considered at the time a property is acquired. Major capital expenditures for 2
ncluded one-time costs related to the implementation of our national branding and signage program. Recurring capital expenditures exc
major capital expendit

ajor capital expenditures for 2004 included a one-time HVAC system upgrade at one property totaling $1,551,000 or $0.25 per square

r capital expenditures for 2003 included $1,072,000 or $0.19 per square foot in one-time costs related to the implementation of our nati
branding and signage prog

ing capital expenditures for 2002 included $552,000 or $0.10 per square foot related to a fully leased property in San Diego, California
underwent substantial renovation in 2

(5) Excludes space that has undergone redevelopment before retenan

es fluctuate in any given period due to the nature, extent and timing of improvements required and the extent to which they are recover
nts. Approximately 91% of our leases provide for the recapture of certain capital expenditures (such as HVAC systems maintenance an
replacement and parking lot resurfacing). In addition, we maintain an active preventative maintenance program at each of our properti
minimize capital expendit

vements and leasing costs also fluctuate in any given year depending upon factors such as the timing and extent of vacancies, property
acteristics, the type of lease (renewal tenant or retenanted space), the involvement of external leasing agents and overall competitive ma
conditi

Infla

r 31, 2006, approximately 90% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all
urance, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2006, approximately 4
a square footage basis) required the tenants to pay a majority of operating expenses. Approximately 89% of our leases (on a square foo
effective annual rent escalations that are either fixed (generally ranging from 3% to 3.5%) or indexed based on the consumer price inde
ccordingly, we do not believe that our earnings or cash flow from real estate operations are subject to any significant risk from inflation
lation, however, could result in an increase in the cost of our variable rate borrowings, including borrowings related to our unsecured lin
credit and unsecured term l

Funds from operat

nting for real estate assets utilizes historical cost accounting and assumes real estate values diminish over time. In an effort to overcome
een real estate values and historical cost accounting for real estate assets, the Board of Governors of the National Association of Real E
s ("NAREIT") established the measurement tool of Funds From Operations ("FFO"). Since its introduction, FFO has become a widely
inancial measure by REITs. We believe that FFO is helpful to investors as an additional measure of the performance of an equity REIT.
accordance with standards established by the Board of Governors of NAREIT in its April 2002 White Paper (the "White Paper") and rel
ntation guidance, which may differ from the methodology for calculating FFO utilized by other equity REITs, and, accordingly, may no
ch other REITs. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses)
tate related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. While FFO is a rele
ed measure of operating performance for REITs, it should not be considered as an alternative to net income (determined in accordance
indication of financial performance, or to cash flows from operating activities (determined in accordance with GAAP) as a measure o
indicative of funds available to fund our cash needs, including our ability to make distributions. (See "Liquidity and capital resources -
flows" above for information regarding these measures of cash fl

e presents a reconciliation of net income available to common stockholders to funds from operations available to common stockholder

	Year Ended December 31,	
	2006	2005
e available to common stockholders	$57,326	$47,343
ation and amortization (1)	74,039	55,416
y interests' share of income	2,287	634
sales of property (2)	(59)	(36)
ocable to minority interest	(1,928)	(668)
operations available to common olders	$131,665	$102,689

cludes depreciation and amortization on assets "held for sale" reflected as discontinued operations (for the periods prior to when such as were designated as "held for sa

on sales of property relates to the disposition of three properties in the Suburban Washington D.C and New Jersey markets during 2006, rties in the Southeast and Suburban Washington D.C. markets during 2005. Gain on sales of property is included in the income stateme income from discontinued operations,

Property and lease informa

The following table is a summary of our properties as of December 31, 2006 (dollars in thousan

	Number of	Rentable Square Feet			Annualized	Occup
	Properties	Operating	Redevelopment	Total	Base Rent (1)	Percent
- Los Angeles Metro	2	31,343	29,660	61,003	$ 775	
- San Diego	27	1,149,369	160,887	1,310,256	29,385	
- San Francisco Bay	24	1,660,349	72,902	1,733,251	49,666	
ssachusetts	39	3,044,186	230,917	3,275,103	99,515	
onal - Canada	3	296,362	--	296,362	6,486	
/Suburban Philadelphia	8	443,349	--	443,349	8,907	
	12	612,565	45,841	658,406	9,221	
ashington D.C.	32	2,575,370	--	2,575,370	54,063	
- Seattle	12	806,759	72,492	879,251	25,557	
erties	159	10,619,652	612,699	11,232,351	$ 283,575	

(1) Excludes spaces at properties totaling 612,699 square feet undergoing a permanent change in use to office/laboratory space thro redevelopm

(2) Substantially all of the vacant space is office or warehouse sp

uding spaces undergoing a permanent change in use to office/laboratory space through redevelopment, occupancy as of December 31, 2 was 88

e summarizes information with respect to the lease expirations at our properties as of December 31, 2006:

	Number of Expiring Leases	Square Footage of Expiring Leases	Percentage of Aggregate Leased Square Feet	Annualized Base Rent of Expiring Leases (per square foot)
	90 (1)	1,267,876	12.8%	$24.59
	43	780,175	7.9%	$26.52
	50	685,896	6.9%	$22.83
	40	1,013,669	10.3%	$26.97
	51	1,457,414	14.7%	$27.07
	96	4,680,559	47.4%	$31.89

month-to-month leases for approximately 86,000 square feet.

Item 7A. Quantitative and Qualitative Disclosures About Market

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

y and manage the interest rate characteristics of our outstanding debt and to limit the effects of interest rate risks on our operations, we
riety of financial instruments, including interest rate swaps, caps, floors and other interest rate exchange contracts. The use of these typ
ge a portion of our exposure to changes in interest rates carries additional risks, such as counter-party credit risk and the legal enforceab
of hedging contr

s and fair values relating to financial instruments are primarily dependent upon prevalent market rates of interest, such as LIBOR. How
swap agreements are intended to reduce the effects of interest rate changes. Based on interest rates at, and our swap agreements in effec
06 and 2005, we estimate that a 1% increase in interest rates on our variable debt, including our unsecured line of credit and unsecured
ering the effect of our interest rate swap agreements, would decrease annual future earnings by approximately $1.5 million and $2.1 mil
urther estimate that a 1% decrease in interest rates on our variable debt, including our unsecured line of credit and unsecured term loan,
fect of our interest rate swap agreements in effect on December 31, 2006 and 2005, would increase annual future earnings by approxima
on and $2.1 million, respectively. A 1% increase in interest rates on our secured debt and interest rate swap agreements would decrease
lues by approximately $68.8 million and $36.8 million at December 31, 2006 and 2005, respectively. A 1% decrease in interest rates o
interest rate swap agreements would increase their aggregate fair values by approximately $71.7 million and $38.4 million at Decembe
2006 and 2005, respecti

ts are determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreemen
er 31, 2006 and 2005. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in suc
her, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. How
nty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital struc

re to equity price market risk because of our equity investments in certain publicly-traded companies and privately held entities. We cla
publicly-traded companies as available-for-sale and, consequently, record them on our balance sheets at fair value with unrealized gai
d as a component of comprehensive income or loss. Investments in privately held entities are generally accounted for under the cost me
nfluence any of the operating or financial policies of the entities in which we invest. For all investments, we recognize other than temp
ainst earnings in the same period the decline in value was deemed to have occurred. There is no assurance that future declines in values
erial adverse impact on our future results of operations. By way of example, a 10% decrease in the fair value of our equity investments
December 31, 2006 and 2005 would decrease their fair values by approximately $7.5 million and $8.2 million, respecti

to foreign currency exchange rate market risk related to our wholly-owned subsidiaries operating in Canada. The functional currency of
ries operating in Canada is the local currency, the Canadian dollar. Gains or losses resulting from the translation of our foreign subsidia
and income statements are included in accumulated other comprehensive income as a separate component of stockholders' equity. Gai
eflected in our income statement when there is a sale or partial sale of our investment in these operations or upon a complete or substant
complete liquidation of the investm

Item 8. Financial Statements and Supplementary

tion required by this Item is included as a separate section in this Annual Report on Form 10-K. See "Item 15. Exhibits, Financial State
Schedu

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclo

N

Item 9A. Controls and Proced

Changes in internal control over financial repo

significant changes in our internal control over financial reporting during the quarter ended December 31, 2006 that could materi
bly likely to materially affect, our internal control over financial reporting.

Evaluation of disclosure controls and proced

, 2006, we performed an evaluation, under the supervision of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"
ness of the design and operation of our disclosure controls and procedures. These controls and procedures have been designed to ensure
red for disclosure is recorded, processed, summarized and reported within the requisite time periods. Based on our evaluation, the CEO
CFO concluded that our disclosure controls and procedures were effective as of December 31, 2

Management's annual report on internal control over financial repo

ement of Alexandria Real Estate Equities, Inc. and its subsidiaries (the "Company") is responsible for establishing and maintaining adeq
r financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliab
orting and the preparation of financial statements for external reporting purposes in accordance with GAAP. The Company's internal co
eporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and f
ons and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of fina
s in accordance with GAAP, and that receipts and expenditures are being made only in accordance with the authorizations of the Compa
d directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or dispositio
ve a material effect on the financial statements. Management has assessed the effectiveness of the Company's internal control over fina
December 31, 2006. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizat
Treadway Commission in "Internal Control - Integrated Framework". Management concluded that based on its assessment, the Compa
ol over financial reporting was effective as of December 31, 2006. Management's assessment of the effectiveness of the Company's inte
ial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as st
in their report on the next p

Report of Independent Registered Public Accounting

To the Board of Directors and Stockholde
Alexandria Real Estate Equities,

l management's assessment, included in the accompanying Annual Management's Report on Internal Control Over Financial Reporting,
tate Equities, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2
a established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commis
ria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessmen
s of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion o
effectiveness of the Company's internal control over financial reporting based on our a

audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require tha
form the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all mat
Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing
sign and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstan
We believe that our audit provides a reasonable basis for our opi

rnal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting
of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control
g includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly re
actions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to pe
nancial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are b
accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding preventio
etection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statem

nherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluatio
uture periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of complia
with the policies or procedures may deterio

management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fa
terial respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal co
over financial reporting as of December 31, 2006, based on the COSO crit

dited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolid
he Company as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flow
of the three years in the period ended December 31, 2006, and our report dated February 26, 2007 expressed an unqualified opinion ther

/s/ Ernst & Young

Los Angeles, Califo
February 26, 2

Item 9B. Other Informa

N

PART III

Item 10. Directors, Executive Officers and Corporate Govern

uired by this Item is incorporated herein by reference from our definitive proxy statement for our 2007 annual meeting of stockholde
Regulation 14A within 120 days after the end of our fiscal year (the "2007 Proxy Statement") under the caption "Board of Direc
and Senior Management", "Corporate Governance Guidelines and Code of Ethics" and "Section 16(a) Beneficial Ownership Repo

Item 11. Executive Compensa

quired by this Item is incorporated herein by reference from our 2007 Proxy Statement under the caption "Board of Directors, Execu
Management - Executive Compensation".

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Ma

sets forth information on the Company's equity compensation plan as of December 31, 2006:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
ensation Plan ckholders - 1997 ve Plan	338,680	$38.20	942,283

on required by this Item is incorporated herein by reference from our 2007 Proxy Statement under the caption "Security Ownershi
incipal Stockholders".

Item 13. Certain Relationships and Related Transactions, and Director Independe

tion required by this Item is incorporated herein by reference from our 2007 Proxy Statement under the captions "Certain Relationships
Related Transactions" and "Director Independen

Item 14. Principal Accountant Fees and Serv

quired by this Item is incorporated herein by reference from our 2007 Proxy Statement under the caption "Fees Billed by Indepen
ccountants".

PART IV

Item 15. Exhibits, Financial Statement Sched

(a)(1) and (2) Financial Statement Schedules

atements and schedule required by this Item are included as a separate section of this Annual Report on Form 10-K, beginning on page

(a)(3) See Exhibits and Index to Exhibits below.

Page

(b) Exhibits and Index to Exhibits

Exhibit Number	Exhibit Title
3.1 *	Articles of Amendment and Restatement of Alexandria, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.2 *	Certificate of Correction of Alexandria, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on August 14, 1997
3.3*	Bylaws of Alexandria (as amended February 27, 2006), filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2006
3.4 *	Articles Supplementary, dated February 10, 2000, relating to the election to be subject to Subtitle 8 of Title 3 of the Maryland General Corporation Law, filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000
3.5 *	Articles Supplementary, dated January 28, 2002, relating to the 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on February 17, 2002
4.1 *	Rights Agreement, dated as of February 10, 2000, between the Company and American Stock Transfer & Trust Company, as Rights Agent, including the forms of Articles Supplementary setting forth the terms of the Series A Junior Participating Preferred Stock, par value $.01 per share, Rights Certificate and the Summary of Rights to Purchase Preferred Stock attached as exhibits to the Rights Agreement. Pursuant to the Rights Agreement, printed Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement), filed as an exhibit to Alexandria's current report on Form 8-K filed with the Commission on February 10, 2000
4.2 *	Specimen certificate representing shares of Common Stock, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
4.3 *	Specimen certificate representing shares of 9.10% Series B Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on February 17, 2002
4.4 *	Specimen certificate representing shares of 8.375% Series C Cumulative Redeemable Preferred Stock, filed as an exhibit to Alexandria's current report on Form 8-A filed with the Commission on June 28, 2004
10.1 * (1)	Amended and Restated 1997 Stock Award and Incentive Plan of Alexandria, dated December 29, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002
10.2 * (1)	Form of Non-Employee Director Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
10.3 * (1)	Form of Incentive Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
10.4 * (1)	Form of Nonqualified Stock Option Agreement for use in connection with options issued pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's Registration Statement on Form S-11 (No. 333-23545)
10.5 * (1)	Form of Employee Restricted Stock Agreement for use in connection with shares of restricted stock issued to employees pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the

	Commission on November 15, 1999
10.6 * (1)	Form of Independent Contractor Restricted Stock Agreement for use in connection with shares of restricted stock issued to independent contractors pursuant to the Amended and Restated 1997 Stock Award and Incentive Plan, filed as an exhibit to Alexandria's quarterly report on Form 10-Q filed with the Commission on November 15, 1999
10.7 * (1)	Alexandria's 2000 Deferred Compensation Plans, effective December 1, 2000, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 29, 2002
10.8*	Amended and Restated Credit Agreement as of December 22, 2004, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other borrowers then and thereafter a party thereto, the banks therein named, the other banks which may become parties thereto, Bank of America, N.A. as Administrative Agent, Citicorp North America, Inc. and Commerzbank AG New York and Grand Cayman Branches, as Co-Syndication Agents, Societe Generale and Eurohypo AG, New York Branch, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2005.
10.9*	Second Amendment to Amended and Restated Credit Agreement as of November 16, 2005, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries party hereto as the borrowers then and thereafter a party thereto, the banks therein named, the other banks which may become parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America, Inc. and Commerzbank AG New York and Grand Cayman Branches, as Co-Syndication Agents, Societe Generale and Eurohypo AG, New York Branch, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners, filed as an exhibit to Alexandria's annual report on Form 10-K filed with the commission on March 16, 2006
10.10* (1)	Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and James H. Richardson, dated January 9, 2006 filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2006
10.11* (1)	Executive Employment Agreement between Alexandria Real Estate Equities, Inc. and Joel S. Marcus, dated March 13, 2006 filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2006.
10.12 (1)	Summary of Director Compensation Arrangements
10.13	Second Amended and Restated Credit Agreement as of October 31, 2006, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America as Syndication Agent, Eurohypo AG, New York Branch, Societe Generale, The Royal Bank of Scotland, PLC, Calyon, The Bank of Nova Scotia, UBS Loan Finance LLC, as Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners
10.14	First Amendment to Second Amended and Restated Credit Agreement as of December 1, 2006, among Alexandria Real Estate, Inc., Alexandria Real Estate Equities, L.P., ARE-QRS Corp., ARE Acquisitions, LLC, and the other subsidiaries parties thereto, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, Citicorp North America as Syndication Agent, Eurohypo AG, New York Branch, Societe Generale, The Royal Bank of Scotland, PLC, Calyon, The Bank of Nova Scotia, UBS Loan Finance LLC, as

	Co-Documentation Agents, Banc of America Securities LLC and Citigroup Global Markets, Inc., as Joint Lead Arrangers and Joint Bookrunners
12.1	Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
14.1*	Alexandria Real Estate Equities, Inc. Business Integrity Policy and Procedures for Reporting Non-Compliance (code of ethics pursuant to Item 406 Regulation S-K), filed as an exhibit to Alexandria's annual report on Form 10-K filed with the Commission on March 16, 2005.
21.1	List of Subsidiaries of Alexandria
23.1	Consent of Ernst & Young LLP
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	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(*) Incorporated by reference.
(1) Management contract or compensatory arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALEXANDRIA REAL ESTATE EQUITIES, INC.

Dated February 27, 2007

By: /s/ JOEL S. MARCUS
Joel S. Marcus
Chief Executive Officer

KNOW ALL THOSE BY THESE PRESENTS

, that each person whose signature appears below constitutes and appoints Jerry M. Sudarsky and Joel S. Marcus, and each of them, as his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, if any, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents of their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature

Title

Date

/s/ JERRY M. SUDARSKY

Jerry M. Sudarsky

Chairman of the Board of Directors

February 27, 2007

/s/ JOEL S. MARCUS

Joel S. Marcus

Chief Executive Officer (Principal Executive Officer) and Director

February 27, 2007

/s/ JAMES H. RICHARDSON

James H. Richardson

President and Director

February 27, 2007

/s/ DEAN A. SHIGENAGA

Dean A. Shigenaga

Chief Financial Officer (Principal Financial and Accounting Officer)

February 27, 2007

/s/ RICHARD B. JENNINGS

Richard B. Jennings

Director

February 27, 2007

/s/ RICHARD H. KLEIN

Richard H. Klein

Director

February 28, 2007

/s/ MARTIN A. SIMONETTI

Martin A. Simonetti

Director

February 26, 2007

/s/ ALAN G. WALTON

Alan G. Walton

Director

February 27, 2007

/s/ RICHMOND A. WOLF

Richmond A. Wolf

Director

February 28, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Alexandria Real Estate Equities, Inc.

We have audited the accompanying consolidated balance sheets of Alexandria Real Estate Equities, Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alexandria Real Estate Equities, Inc. and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California
February 26, 2007

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

	December 31, 2006	December 31, 2005
Assets		
Rental properties, net	$2,924,881	$1,788,818
Properties undergoing development and land held for development	397,701	329,338
Cash and cash equivalents	2,948	3,911
Tenant security deposits and other restricted cash	34,360	21,013
Tenant receivables	6,330	4,764
Deferred rent	68,412	54,573
Investments	74,824	82,010
Other assets	108,021	78,023
Total assets	$3,617,477	$2,362,450
Liabilities and Stockholders' Equity		
Secured notes payable	$1,174,866	$ 666,666
Unsecured line of credit and unsecured term loan	850,000	740,000
Accounts payable, accrued expenses and tenant security deposits	158,119	86,391
Dividends payable	25,363	19,478
Total liabilities	2,208,348	1,512,535
Commitments and contingencies		
Minority interest	57,477	20,115
Stockholders' equity:		
9.10% Series B cumulative redeemable preferred stock, $0.01 par value per share, 2,300,000 shares authorized; 2,300,000 shares issued and outstanding at December 31, 2006 and 2005; $25.00 liquidation value per share	57,500	57,500
8.375% Series C cumulative redeemable preferred stock, $0.01 par value per share, 5,750,000 shares authorized; 5,185,500 shares issued and outstanding at December 31, 2006 and 2005; $25.00 liquidation value per share	129,638	129,638
Common stock, $0.01 par value per share, 100,000,000 shares authorized; 29,012,135 and 22,441,294 shares issued and outstanding at December 31, 2006 and 2005, respectively	290	224
Additional paid-in capital	1,139,629	607,405
Retained earnings	-	-
Accumulated other comprehensive income	24,595	35,033
Total stockholders' equity	1,351,652	829,800
Total liabilities and stockholders' equity	$3,617,477	$2,362,450

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Income
(*Dollars in thousands, except per share amounts)*

	Year Ended December		
	2006	2005	
Revenues			
Rental	$ 241,209	$ 184,812	$
Tenant recoveries	63,760	48,528	
Other income	11,852	4,798	
	316,821	238,138	
Expenses			
Rental operations	71,550	53,107	
General and administrative	26,071	21,088	
Interest	71,371	49,116	
Depreciation and amortization	73,572	53,993	
	242,564	177,304	
Minority interests' share of income	2,287	634	
Income from continuing operations	71,970	60,200	
Income from discontinued operations, net	1,446	3,233	
Net income	73,416	63,433	
Dividends on preferred stock	16,090	16,090	
Preferred stock redemption charge	-	-	
Net income available to common stockholders	$ 57,326	$ 47,343	$
Earnings per share - basic			
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.22	$ 2.11	$
Discontinued operations, net	0.06	0.15	
Earnings per share - basic	$ 2.28	$ 2.26	$
Earnings per share - diluted			
Continuing operations (net of preferred stock dividends and preferred stock redemption charge)	$ 2.19	$ 2.07	$
Discontinued operations, net	0.06	0.15	
Earnings per share - diluted	$ 2.25	$ 2.22	$
Weighted average shares of common stock outstanding			
Basic	25,102,200	20,948,915	19
Diluted	25,524,478	21,316,886	19

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Dollars in thousands)

	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock
Balance at December 31, 2003	$ 38,588	$ 57,500	$ -
Net income	-	-	-
Unrealized gain on marketable securities	-	-	-
Unrealized gain on swap agreements	-	-	-
Comprehensive income	-	-	-
Issuance of Series C preferred stock, net of offering costs	-	-	129,638
Redemption of Series A preferred stock	(38,588)	-	-
Issuances pursuant to Stock Plan	-	-	-
Dividends declared on preferred stock	-	-	-
Dividends declared on common stock	-	-	-
Balance at December 31, 2004	-	57,500	129,638
Net income	-	-	-
Unrealized gain on marketable securities	-	-	-
Unrealized gain on swap agreements	-	-	-
Foreign currency translation	-	-	-
Comprehensive income	-	-	-
Issuance of common stock, net of offering costs	-	-	-
Issuances pursuant to Stock Plan	-	-	-
Dividends declared on preferred stock	-	-	-
Dividends declared on common stock	-	-	-
Balance at December 31, 2005	-	57,500	129,638
Net income	-	-	-
Unrealized loss on marketable securities	-	-	-
Unrealized loss on swap agreements	-	-	-
Foreign currency translation	-	-	-
Comprehensive income	-	-	-
Issuance of common stock, net of offering costs	-	-	-
Issuances pursuant to Stock Plan	-	-	-
Dividends declared on preferred stock	-	-	-
Dividends declared on common stock	-	-	-
Balance at December 31, 2006	$ -	$ 57,500	$ 129,638

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 3		
	2006	2005	
Operating Activities			
Net income	$ 73,416	$ 63,433	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in loss (income) related to investments	632	(483)	
Realized gain on sales of investments	(7,770)	(1,811)	
Gain/loss on sales of property	(59)	(36)	
Minority interest	2,287	634	
Depreciation and amortization	74,039	55,416	
Amortization of loan fees and costs	4,631	6,666	
Amortization of premiums/discount on secured notes payable	(990)	(1,089)	
Stock compensation expense	7,909	5,136	
Changes in operating assets and liabilities:			
Tenant security deposits and other restricted cash	(13,347)	(3,344)	
Tenant receivables	(1,566)	(2,214)	
Deferred rent	(16,323)	(14,904)	
Other assets	(25,532)	(26,586)	
Accounts payable, accrued expenses and tenant security deposits	31,063	39,860	
Net cash provided by operating activities	128,390	120,678	
Investing Activities			
Purchase of rental properties	(744,908)	(223,862)	
Proceeds from sales of rental properties	33,040	1,182	
Additions to rental properties	(98,111)	(92,417)	
Additions to properties under development and land held for development	(168,299)	(117,945)	
Additions to investments	(12,906)	(10,367)	
Proceeds from investments	20,594	10,509	
Net cash used in investing activities	(970,590)	(432,900)	
Financing Activities			
Proceeds from issuances of common stock	535,262	189,371	
Proceeds from issuance of preferred stock	-	-	
Redemption of Series A preferred stock	-	-	
Proceeds from exercise of stock options	4,298	4,291	
Borrowings from unsecured line of credit and unsecured term loan	1,613,600	515,000	
Repayments of unsecured line of credit	(1,503,600)	(323,000)	
Proceeds from secured notes payable	502,500	153,398	
Principal reductions of secured notes payable	(221,316)	(153,015)	
Dividends paid on common stock	(71,489)	(56,312)	
Dividends paid on preferred stock	(16,090)	(16,090)	
Distributions to minority interest	(1,928)	(668)	
Net cash provided by financing activities	841,237	312,975	
Net (decrease) increase in cash and cash equivalents	(963)	753	
Cash and cash equivalents at beginning of year	3,911	3,158	
Cash and cash equivalents at end of year	$ 2,948	$ 3,911	$

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for interest, net of interest capitalized	$ 64,830	$ 39,292	$

See the accompanying Notes to Consolidated Financial Statements.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Background

References to the "Company", "we", "our" and "us" refer to Alexandria Real Estate Equities, Inc. and its subsidiaries.

Alexandria Real Estate Equities, Inc. is a real estate investment trust ("REIT") formed in 1994. We are engaged principally in the ownership, operation, management, selective redevelopment, development and acquisition of properties for the life sciences industry. Our properties are designed and improved for lease primarily to institutional (universities and independent not-for-profit institutions), pharmaceutical, biotechnology, medical device, life science product, service, biodefense and translational research entities, as well as governmental agencies. As of December 31, 2006, we had 159 properties (156 properties located in nine states in the United States and three properties located in Canada) with approximately 11.2 million rentable square feet of office/laboratory space, compared to 133 properties (130 properties located in nine states in the United States and three properties located in Canada) with approximately 8.8 million rentable square feet of office/laboratory space as of December 31, 2005.

As of December 31, 2006, approximately 90% of our leases (on a square footage basis) were triple net leases, requiring tenants to pay substantially all real estate taxes and insurance, common area and other operating expenses, including increases thereto. In addition, as of December 31, 2006, approximately 4% of our leases (on a square footage basis) required the tenants to pay a majority of operating expenses. Additionally, as of December 31, 2006, approximately 91% of our leases (on a square footage basis) provided for the recapture of certain capital expenditures and approximately 89% of our leases (on a square footage basis) contained effective annual rent escalations that are either fixed or indexed based on the consumer price index or another index. The information provided in this paragraph is unaudited.

2. Basis of presentation and summary of significant accounting policies

Basis of presentation

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

We hold interests, together with certain third parties, in a limited partnership and in limited liability companies which we consolidate in our financial statements. Such interests are subject to provisions of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", FASB Emerging Issues Task Force Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights", FASB Emerging Issues Task Force 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" and AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures". Based on the provisions set forth in these rules, we consolidate the limited partnership and limited liability companies because we exercise significant control over major decisions by these entities, such as investment activity and changes in financing.

Use of estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, tenant receivables, unsecured line of credit and unsecured term loan, and accounts payable, accrued expenses and tenant security deposits approximate fair value.

The fair value of our secured notes payable was estimated using discounted cash flows analyses based on borrowing rates we believe we could obtain with similar terms and maturities. As of December 31, 2006 and 2005, the fair values of our secured notes payable were approximately $1,179,404,000 and $682,835,000, respectively.

Operating segments

We view our operations as principally one segment and the financial information disclosed herein represents all of the financial information related to our principal operating segment.

International operations

The functional currency for our subsidiaries operating in the United States is the U.S. dollar. During 2005, we acquired three operating properties in Canada through wholly-owned Canadian subsidiaries. The functional currency for our foreign subsidiaries operating in Canada is the local currency, the Canadian dollar. The assets and liabilities of our foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect as of the financial statement date. Income statement accounts of our foreign subsidiaries are translated using the average exchange rate for the period presented. Gains resulting from the translation are included in accumulated other comprehensive income as a separate component of stockholders' equity.

The appropriate amounts of exchange gains or losses included in accumulated other comprehensive income are reflected in income when there is a sale or partial sale of our investment in these operations or upon a complete or substantially complete liquidation of the investment.

Rental properties, properties undergoing development and land held for development

In accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), we allocate the purchase price of acquired properties to land, land improvements, buildings, building improvements, tenant improvements, equipment, and identified intangibles (including intangible value to above, below and at-market leases, origination costs associated with in-place leases, tenant relationships and other intangible assets) based upon

their relative fair values. The value of tangible assets acquired is based upon our estimation of value on an "as if vacant" basis. We assess fair value of tangible and intangible assets based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

The values allocated to land improvements, buildings, building improvements, tenant improvements and equipment are depreciated on a straight-line basis using an estimated life of 20 years for land improvements, 40 years for buildings and building improvements, the respective lease term for tenant improvements and the estimated useful life for equipment. The values of above and below market leases are amortized over the life of the related lease and recorded as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The values of at-market leases and origination costs are classified as leasing costs, included in other assets in the accompanying consolidated balance sheets and amortized over the remaining life of the lease.

In accordance with SFAS 141, the values of above and below market leases are amortized over the life of the related lease and recorded as either an increase (for below market leases) or a decrease (for above market leases) to rental income. The value of acquired leases, less accumulated amortization, was approximately $36,389,000 as of December 31, 2006. The weighted average amortization period of acquired leases is approximately 9.5 years. The estimated aggregate annual amortization of acquired leases for each of the five succeeding years is $5,454,000 for 2007, $4,621,000 for 2008, $4,519,000 for 2009, $4,392,000 for 2010 and $3,442,000 for 2011.

Rental properties, properties undergoing development and land held for development and intangibles are individually evaluated for impairment in accordance with SFAS 141 when conditions exist which may indicate that it is probable that the sum of expected future undiscounted cash flows is less than the carrying amount. Upon determination that an impairment has occurred, a write-down is recorded to reduce the carrying amount to its estimated fair value.

In accordance with Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Cost" ("SFAS 34") and Statement of Financial Accounting Standards No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" ("SFAS 67"), we capitalize direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a project. Pursuant to SFAS 34 and SFAS 67, capitalization of construction, development and redevelopment costs is required while activities are ongoing to prepare an asset for its intended use. Costs incurred after a project is substantially complete and ready for its intended use are expensed as incurred. Costs previously capitalized related to abandoned acquisitions or development opportunities are written off. Should development activity cease, a portion of interest, property taxes, insurance and certain costs would no longer be eligible for capitalization, and would be expensed as incurred. Expenditures for repairs and maintenance are expensed as incurred.

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we classify a property 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 the property is classified as "held for sale", its operations are classified as discontinued operations in our consolidated statements of income and 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 upon designation of a property as "held for sale".

Conditional asset retirement obligations

Some of our properties may have asbestos which, under certain conditions, requires remediation. Although we believe that the asbestos is appropriately contained in accordance with environmental regulations, our practice is to remediate the asbestos upon the development or redevelopment of the affected property. In accordance with Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations - an Interpretation of FASB Statement No. 143" ("FIN 47"), we recognize a liability for the fair value of a conditional asset retirement obligation (including asbestos) when the fair value of the liability can be reasonably estimated. In addition, for certain properties, we have not recognized an asset retirement obligation when there is an indeterminate settlement date for the obligation because the period in which we may remediate the obligation may not be estimated with any level of precision to provide for a meaningful estimate of the retirement obligation. Conditional asset retirement obligations totaled approximately $6.9 million as of December 31, 2006 and are included in accounts payable, accrued expenses and tenant security deposits.

Cash equivalents

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Tenant security deposits and other restricted cash

Tenant security deposits and other restricted cash consisted of the following (in thousands):

	December 31, 2006	December 31, 2005
Funds held in trust under the terms of certain secured notes payable	$ 20,071	$ 13,838
Other funds held in escrow	14,289	7,175
	$ 34,360	$ 21,013

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" in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), and are recorded at fair value. Fair value has been determined as the closing trading price at the balance sheet date, with unrealized gains and losses shown as a separate component of stockholders' equity. The classification of investments under SFAS 115 is determined at the time each investment is made, and such determination is reevaluated at each balance sheet date. The cost of investments sold is determined by the specific identification method, with realized gains and losses included in other income in the accompanying consolidated statements of income.

Investments in privately held entities are generally accounted for under the cost method because we do not influence any operating or financial policies of the entities in which we invest. Certain investments are 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" ("EITF Topic D-46"). Under the equity method we record our investment initially at cost and adjust the carrying amount of the investment to recognize our share of the earnings or losses of the investee subsequent to the date of our investment.

Individual investments are evaluated for impairment when conditions exist which may indicate that it is probable that an impairment exist. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements. 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 charge to current earnings.

Leasing costs

Costs directly related and essential to our leasing activities are capitalized and amortized on a straight-line basis over the term of the related lease. Costs related to unsuccessful leasing opportunities are expensed. Leasing costs, net of related amortization, totaled $45,980,000 and $32,924,000 as of December 31, 2006 and 2005, respectively, and are included in other assets in the accompanying consolidated balance sheets.

Lease origination costs recorded pursuant to SFAS 141 are included in amounts immediately above and are classified as leasing costs, included in other assets in the accompanying consolidated balance sheets and amortized over the remaining life of the lease. The value of lease origination costs, net of related amortization recognized pursuant to SFAS 141, was approximately $17,004,000 as of December 31, 2006. The annual amortization of lease origination costs pursuant to SFAS 141 for each of the five succeeding years is $4,266,000 for 2007, $3,357,000 for 2008, $2,956,000 for 2009, $2,259,000 for 2010 and $1,497,000 for 2011.

Loan fees and costs

Fees and costs incurred in obtaining long-term financing are amortized over the terms of the related loans and included in interest expense in the accompanying consolidated statements of income. Loan fees and costs, net of related amortization, totaled $19,390,000 and $14,789,000 as of December 31, 2006 and 2005, respectively, and are included in other assets in the accompanying consolidated balance sheets.

Interest rate swaps

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan. These agreements involve an exchange of fixed and floating rate 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.

Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities", as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. All of our interest rate swap agreements meet the criteria to be deemed "highly effective" under SFAS 133 in reducing our exposure to variable interest rates. In accordance with SFAS 133, we formally document all relationships between interest rate swap agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. Accordingly, we have categorized these instruments as cash flow hedges. We make an assessment at the inception of each interest rate swap agreement and on an on going basis to determine whether these instruments are highly effective in offsetting changes in cash flows associated with the hedged items. The ineffective portion of each interest rate swap agreement is immediately recognized in earnings. While we intend to continue to meet the conditions for such hedge accounting, if hedges did not qualify as "highly effective", the changes in the fair values of the derivatives used as hedges would be reflected in earnings.

Pursuant to SFAS 133, interest rate swaps are reflected at their estimated fair values in the accompanying consolidated balance sheets. We use a variety of methods and assumptions based on market conditions and risks existing at each balance sheet date to determine the fair values of our interest rate swap agreements. These methods of assessing fair value result in a general approximation of value.

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

Accumulated other comprehensive income

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

	December 31,	
	2006	2005
Unrealized gain on marketable securities	$ 21,737	$ 28,373
Unrealized gain on interest rate swap agreements	973	4,867
Unrealized gain on foreign currency translation	1,885	1,793
	$ 24,595	$ 35,033

Rental income and tenant recoveries

Rental income from leases with scheduled rent increases, free rent, incentives and other rent adjustments are recognized on a straight-line basis over the respective lease terms. We include amounts currently recognized as income, and expected to be received in later years, in deferred rent in the accompanying consolidated balance sheets. Amounts received currently, but recognized as income in future years, are included as unearned rent in accounts payable, accrued expenses and tenant security deposits in the accompanying consolidated balance sheets. We commence recognition of rental income at the date the property is ready for its intended use and the tenant takes possession of or controls the physical use of the property.

Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period the applicable expenses are incurred.

We maintain an allowance for estimated losses that may result from the inability of our tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and unrealized deferred rent. As of December 31, 2006 and 2005, we had no allowance for doubtful accounts.

Interest income

Interest income was $1,303,000, $578,000, and $181,000 in 2006, 2005 and 2004, respectively, and is included in other income in the accompanying consolidated statements of income.

Income taxes

As a REIT, we are not subject to federal income taxation as long as we meet a number of organizational and operational requirements and make distributions greater than or equal to 100% of our taxable income to our stockholders. Since we believe we have met these requirements and our distributions exceeded taxable income, no federal income tax provision has been reflected in the accompanying consolidated financial statements for the years ended December 31, 2006, 2005 and 2004. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

During 2006, 2005 and 2004, we declared dividends on our common stock of $2.86, $2.72, and $2.52 per share, respectively. During 2004, we declared dividends on our Series A cumulative redeemable preferred stock of $1.72847. During 2006, 2005 and 2004, we declared dividends on our Series B cumulative redeemable preferred stock of $2.275, $2.275 and $2.275, respectively. During 2006, 2005 and 2004, we declared dividends on our Series C cumulative redeemable preferred stock of $2.09375, $2.09375 and $0.61649 per share, respectively. See Note 11, Preferred Stock and Excess Stock.

The tax treatment of distributions on common stock paid in 2006 is as follows: (1) 82.1% ordinary dividend, (2) 12.3% capital gain at 15%, (3) 3.3% return of capital, and (4) 2.3% Section 1250 capital gain at 25%. The tax treatment of distributions on common stock paid in 2005 is as follows: (1) 71.8% ordinary dividend, (2) 3.9% capital gain at 15%, (3) 24.1% return of capital, and (4) 0.2% Section 1250 capital gain at 25%. The information provided in this paragraph is unaudited.

Earnings per share, dividends declared and preferred stock redemption cost

The following table shows the computation of earnings per share, and dividends declared per common share:

	Year Ended December 31,		
	2006	2005	2004
	(Dollars in thousands, except per share amounts)		
Net income available to common stockholders	$ 57,326	$ 47,343	$ 45,724
Weighted average shares of common stock outstanding - basic	25,102,200	20,948,915	19,315,364
Add: dilutive effect of stock options and stock grants	422,278	367,971	343,395
Weighted average shares of common stock outstanding - diluted	25,524,478	21,316,886	19,658,759
Net income available to common stockholders - basic	$ 2.28	$ 2.26	$ 2.37
Net income available to common stockholders - diluted	$ 2.25	$ 2.22	$ 2.33
Dividends declared per common share	$ 2.86	$ 2.72	$ 2.52

Emerging Issues Task Force Topic D-42, "The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock" ("EITF Topic D-42") provides, among other things, that any excess of (1) the fair value of the consideration transferred to the holders of preferred stock redeemed over (2) the carrying amount of the preferred stock, should be subtracted from net earnings to determine net income available to common stockholders

in the calculation of earnings per share. The cost to issue our preferred stock was recorded as a reduction to additional paid-in capital in the period that the preferred stock was issued. Upon any redemption of our preferred stock, the respective offering costs, representing the excess of the fair value of the consideration transferred to the holders over the carrying amount of the preferred stock, will be recognized as a dividend to preferred stockholders. During 2004, we recorded a charge of approximately $1,876,000 to net income available to common stockholders for costs related to the redemption of our 9.5% Series A cumulative redeemable preferred stock. Dividends on preferred stock are deducted from net income to arrive at net income allocable to common stockholders.

Stock-based compensation expense

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). Under the modified-prospective transition method of SFAS 123R, compensation cost is recognized over the remaining service period for the portion of outstanding stock options for which the requisite service had not been rendered that were outstanding as of January 1, 2006. The compensation cost is based on the grant-date fair value of those awards. In addition, SFAS 123R requires that we account for an estimate of awards that are expected to vest and to revise the estimate for actual forfeitures. The adoption of SFAS 123R did not have a material impact on our financial statements since all awards accounted for under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") were fully vested prior to the adoption of SFAS 123R. Effective January 1, 2003, we had adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock- Based Compensation" ("SFAS 123") prospectively to all employee awards granted, modified or settled after January 1, 2003. We have not granted any stock options since 2002.

For 2002 and all prior years, we elected to follow ABP 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 equaled the market price of the underlying stock on the date of grant, no compensation expense related to stock options has been recognized. Although we have elected to follow APB 25 for options granted prior to January 1, 2003, pro forma information regarding net income and net income per share is required by SFAS 123R for all periods presented prior to 2006 as if we had accounted for stock options under the fair value method under SFAS 123.

For purposes of the following pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods (in thousands, except per share information):

	Year Ended December 31,		
	2006	2005	2004
Net income available to common stockholders, as reported	$ 57,326	$ 47,343	$ 45,724
Fair value of stock-based compensation cost	--	(152)	(733)
Pro forma net income available to common stockholders	$ 57,326	$ 47,191	$ 44,991
Earnings per share:			
Basic - as reported	$ 2.28	$ 2.26	$ 2.37
Basic - pro forma	$ 2.28	$ 2.25	$ 2.33
Diluted - as reported	$ $2.25	$ $2.22	$ $2.33
Diluted - pro forma	$ $2.25	$ $2.21	$ $2.29

Impact of recently issued accounting standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which provides a framework for measuring fair value, clarifies the definition of fair value within the framework and expands disclosures about the use of fair value measurements. SFAS 157 applies to all existing pronouncements under GAAP that require or permit the use of fair value measurements, except for SFAS 123R. SFAS 157 is effective for fair value measurements beginning in our first quarter of 2008. We do not expect the adoption of SFAS 157 to have a material impact on our financial statements.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 increases the relevancy and comparability of financial reporting by clarifying the way a company accounts for uncertainty in measuring income taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 only allows a favorable tax position to be included in the calculation of tax liabilities and expenses if a company concludes that it is more likely than not that its adopted tax position will prevail if challenged by tax authorities. FIN 48 also provides guidance on the accounting and recording of interest and penalties on uncertain tax positions. FIN 48 is effective for accounting of income taxes beginning in our first quarter of 2007. We do not expect the adoption of FIN 48 to have a material impact on our financial statements.

In December 2005, the FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets" ("SFAS 153"), which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB 29"). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair values of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges beginning in our third quarter of 2005. The adoption of SFAS 153 did not have a material impact on our financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" and Statement of Financial Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements". SFAS 154 requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes and corrections of errors beginning in 2006. The adoption of SFAS 154 did not have an impact on our financial statements.

3. Rental properties, net and properties undergoing development and land held for development

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

	December 31, 2006	December 31, 2005
Land	$ 482,310	$ 296,841
Buildings and improvements	2,536,542	1,559,385
Tenant and other improvements	185,649	153,482
	3,204,501	2,009,708
Less accumulated depreciation	(279,620)	(220,890)
	$ 2,924,881	$ 1,788,818

As of December 31, 2006 and 2005, certain of our rental properties were encumbered by deeds of trust and assignments of rents and leases associated with the properties. See Note 5, Secured Notes Payable. The net book values of encumbered properties including land parcels as of December 31, 2006 and 2005 were $1,107,526,000 and $848,286,000, respectively.

We lease space under noncancelable leases with remaining terms of up to 17 years.

In July 2006, we completed the acquisition of a 90% equity interest in the leasehold interest in 10.4 acres commonly known as Technology Square ("Tech Square") at Massachusetts Institute of Technology ("MIT") in Cambridge, Massachusetts. The remaining 10% equity interest was retained by MIT. MIT is also a tenant at Tech Square occupying 178,952 rentable square feet as of December 31, 2006. The results of Tech Square's operations have been included in our consolidated financial statements since that date. Tech Square consists of a seven building campus (including a 1,593 space covered car parking garage and a 49 space surface parking lot) containing approximately 1.2 million square feet and is subject to a ground lease with an affiliate of MIT through December 31, 2064.

In accordance with FAS 141, we allocated the purchase price of Tech Square based upon the relative fair values of the assets acquired and liabilities assumed including rental properties of $616 million, other assets of $5 million, secured notes payable of $220 million, accounts payable, accrued expenses and tenant security deposits of $26 million and minority interest of $37 million.

Our financial statements, on an unaudited pro forma basis, for the acquisitions of Tech Square, the issuance of 2.5 million shares of common stock with proceeds of approximately $232 million and borrowings on our unsecured line of credit of approximately $106 million as if it had occurred on January 1, 2005, would have reflected total consolidated revenues of $347.5 million and $287.6 million for the years ended December 31, 2006 and 2005, respectively. Net income available to common stockholders would have been approximately $60.6 million and $51.9 million for the years ended December 31, 2006 and 2005, respectively. Net income available to common stockholders on a diluted per share basis would have been $2.21 and $2.18 for the years ended December 31, 2006 and 2005, respectively. All other properties acquired during the year comprise of a series of individually insignificant transactions, both individually and in aggregate, and have been excluded from this pro forma analysis.

Rental properties, net as of December 31, 2006, include spaces totaling approximately 612,699 rentable square feet at 13 properties in our redevelopment program. Rental properties, net as of December 31, 2005, include spaces totaling approximately 548,051 rentable square feet at 15 properties in our redevelopment program. The allocated net book values of the portion of these properties undergoing redevelopment as of December 31, 2006 and 2005 were approximately $169,131,000 and $139,661,000, respectively. Depreciation ceases on the portion of a property undergoing redevelopment during the period of redevelopment.

In accordance with SFAS 34, we are required to capitalize interest to properties undergoing development or redevelopment during the period an asset is undergoing activities to prepare it for its intended use. Capitalization of interest ceases after a project is substantially complete and ready for its intended use. In addition, should construction activity cease, interest would be expensed as incurred. Total interest capitalized for the years ended December 31, 2006, 2005 and 2004 was $35,282,000, $27,490,000 and $17,902,000, respectively. Total interest incurred for the years ended December 31, 2006, 2005 and 2004 was $107,643,000, $77,695,000 and $46,733,000, respectively.

Minimum lease payments to be received under the terms of the operating lease agreements, excluding expense reimbursements, as of December 31, 2006 are as follows (in thousands):

Year	Amount
2007	247,920
2008	236,694

2009	220,923
2010	207,037
2011	174,208
Thereafter	587,402
	$ 1,674,184

4. 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" in accordance with SFAS 115, and are recorded at fair value. Investments in privately held entities are generally accounted for under the cost method because we do not influence any operating or financial policies of the entities in which we invest. Certain investments are accounted for under the equity method in accordance with APB 18 and EITF Topic D-46. 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 charge to current earnings. The factors that we consider in making these assessments include, but are not limited to, market prices, market conditions, prospects for favorable or unfavorable clinical trial results, new product initiatives and new collaborative agreements. For additional discussion of our accounting policies with respect to investments, see Note 2, Basis of Presentation and Summary of Significant Accounting Policies.

The following table summarizes our available-for-sale securities (in thousands):

	December 31,	
	2006	2005
Adjusted cost of available-for-sale securities	$ 4,445	$ 4,740
Gross unrealized gains	22,849	29,135
Gross unrealized losses	(1,112)	(762)
Fair value of available-for-sale securities	$ 26,182	$ 33,113

Investments in available-for-sale securities with gross unrealized losses as of December 31, 2006 and 2005 have been in a continuous unrealized loss position for less than twelve months. We believe that these unrealized losses are temporary and accordingly we have not recognized an other-than-temporary impairment related to available-for-sale securities as of December 31, 2006 and 2005.

Our investments in privately held entities as of December 31, 2006 and 2005 totaled $48,642,000 and $48,897,000, respectively. Of these totals, $48,013,000 and $47,164,000 are accounted for under the cost method. The remainder ($629,000 and $1,733,000 for 2006 and 2005, respectively) are accounted for under the equity method in accordance with APB 18 and EITF Topic D-46. As of December 31, 2006 and 2005, there were no unrealized losses in our investments in privately held entities.

Net investment income of $7,138,000, $2,294,000, and $2,436,000 was recognized in 2006, 2005 and 2004, respectively, and is included in other income in the accompanying consolidated statements of income. Net investment income in 2006 consisted of equity in loss of $632,000 related to investments in privately held entities accounted for under the equity method, gross realized gains of $8,305,000, and gross realized losses of $535,000. Net investment income in 2005 consisted of equity in income of $483,000 related to investments in privately held entities accounted

for under the equity method, gross realized gains of $2,433,000, and gross realized losses of $622,000. Net investment income in 2004 consisted of equity in income of $208,000 related to investments in privately held entities accounted for under the equity method, gross realized gains of $2,508,000, and gross realized losses of $280,000.

5. Secured notes payable

Secured notes payable totaled $1.2 billion and $666.7 million as of December 31, 2006 and 2005, respectively. Our secured notes payable had weighted average interest rates of 6.21% and 6.31% at December 31, 2006 and 2005, respectively, with maturity dates ranging from March 2007 to August 2016.

Our secured notes payable generally require monthly payments of principal and interest. The total net book values of properties securing debt were $1.7 billion and $848.3 million at December 31, 2006 and 2005, respectively. At December 31, 2006, our secured notes payable were comprised of $940.0 million and $234.9 million of fixed and variable rate debt, respectively, compared to $595.9 million and $70.8 million of fixed and variable rate debt, respectively, at December 31, 2005.

Future principal payments due on secured notes payable as of December 31, 2006, are as follows (dollars in thousands):

Year	Amount	Weighted Average Interest Rate (1)
2007	$ 72,790	6.21%
2008	290,088	6.17%
2009	45,986	6.26%
2010	93,259	6.23%
2011	108,204	6.09%
Thereafter	564,539	6.00%
Total secured notes payable	$ 1,174,866	

(1) The weighted average interest rate related to our secured debt is calculated based on the outstanding debt as of December 31st of the year immediately preceding the year presented.

6. Unsecured line of credit and unsecured term loan

In October 2006, we entered into an amendment to our amended and restated credit agreement to increase the maximum permitted borrowings under our unsecured credit facilities from $1 billion to $1.4 billion consisting of an $800 million unsecured line of credit and a $600 million unsecured term loan. We may in the future elect to increase commitments under the unsecured credit facilities by up to an additional $500 million.

Borrowings under our unsecured line of credit, as amended, bear interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must elect a LIBOR period of one, two, three or six months. Our unsecured line of credit matures in October 2010 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $250 million outstanding on the unsecured line of credit with a weighted average interest rate of 6.50%.

Our unsecured term loan bears interest at a floating rate based on our election of either a LIBOR-based rate or the higher of the bank's reference rate and the Federal Funds rate plus 0.5%. For each LIBOR-based advance, we must

elect to fix for a period of one, two, three or six months. Our unsecured term loan matures in October 2011 and may be extended at our sole option for an additional one-year period. As of December 31, 2006, we had borrowings of $600 million outstanding on the unsecured term loan with a weighted average interest rate of 6.50%.

Our unsecured line of credit and our unsecured term loan contain financial covenants, including, among other things, maintenance of minimum net worth, a leverage 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.

Aggregate unsecured borrowings under our credit facilities may be limited to an amount based primarily 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 unsecured borrowings available under our credit facilities may increase up to a maximum combined amount of $1.4 billion.

7. Interest rate swaps

We utilize interest rate swap agreements to hedge a portion of our exposure to variable interest rates primarily associated with our unsecured line of credit and unsecured term loan. These agreements involve an exchange of fixed and floating rate 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.

SFAS 133, as amended, establishes accounting and reporting standards for derivative financial instruments such as our interest rate swap agreements. All of our interest rate swap agreements meet the criteria to be deemed "highly effective" under SFAS 133 in reducing our exposure to variable interest rates. In accordance with SFAS 133, we formally document all relationships between interest rate swap agreements and hedged items, including the method for evaluating effectiveness and the risk strategy. Accordingly, we have categorized these instruments as cash flow hedges. We make an assessment at the inception of each interest rate swap agreement and on an on going basis to determine whether these instruments are highly effective in offsetting changes in cash flows associated with the hedged items. While we intend to continue to meet the conditions for such hedge accounting, if hedges did not qualify as "highly effective", the changes in the fair values of the derivatives used as hedges would be reflected in earnings.

As of December 31, 2006 and 2005, our interest rate swap agreements were classified in other assets and accounts payable, accrued expenses and tenant security deposits at their fair values aggregating approximately $1.0 million and $4.9 million, respectively, with the offsetting adjustment reflected as unrealized gains in accumulated other comprehensive income in stockholders' equity. Balances in accumulated other comprehensive income are recognized in earnings as swap payments are made. During the next twelve months, we expect to reclassify $3.1 million from accumulated other comprehensive income to interest income.

The following table summarizes our interest rate swap agreements as of December 31, 2006 related to our unsecured line of credit and unsecured term loan (dollars in thousands) (1):

Transaction Dates	Effective Dates	Notional Amounts	Effective at December 31, 2006	Interest Pay Rates	Termination Dates	Fa Val
December 2003	December 29, 2006	$ 50,000	$ 50,000	5.090%	October 31, 2008	$
April 2004	April 28, 2006	50,000	50,000	4.230%	April 30, 2007	
April 2004	April 30, 2007	50,000	--	4.850%	April 30, 2008	
June 2004	June 30, 2005	50,000	50,000	4.343%	June 30, 2007	

December 2004	December 31, 2004	50,000	50,000	3.590%	January 2, 2008	
December 2004	January 3, 2006	50,000	50,000	3.927%	July 1, 2008	
May 2005	June 30, 2006	50,000	50,000	4.270%	June 29, 2007	
May 2005	November 30, 2006	25,000	25,000	4.330%	November 30, 2007	
May 2005	June 29, 2007	50,000	--	4.400%	June 30, 2008	
May 2005	November 30, 2007	25,000	--	4.460%	November 28, 2008	
May 2005	June 30, 2008	50,000	--	4.509%	June 30, 2009	
May 2005	November 28, 2008	25,000	--	4.615%	November 30, 2009	
December 2005	December 29, 2006	50,000	50,000	4.730%	November 30, 2009	
December 2005	December 29, 2006	50,000	50,000	4.740%	November 30, 2009	
December 2005	January 2, 2008	50,000	--	4.768%	December 31, 2010	
June 2006	June 30, 2006	125,000	125,000	5.299%	September 30, 2009	(1,
June 2006	October 31, 2008	50,000	--	5.340%	December 31, 2010	(
June 2006	October 31, 2008	50,000	--	5.347%	December 31, 2010	(
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	(
June 2006	June 30, 2008	50,000	--	5.325%	June 30, 2010	(
December 2006	December 31, 2006	50,000	50,000	4.990%	March 31, 2014	
December 2006	June 29, 2007	50,000	--	4.920%	October 31, 2008	
December 2006	November 30, 2009	75,000	--	5.015%	March 31, 2014	
December 2006	November 30, 2009	75,000	--	5.023%	March 31, 2014	
December 2006	December 31, 2010	100,000	--	5.015%	October 31, 2012	
Total Notional Amount in Effect at December 31, 2006			$ 600,000			$ 1,

(1) As of December 31, 2006, we had one additional interest rate swap agreement with a notional amount of $28,500,000. This interest rate swap agreement has an interest pay rate of 5.003%, is effective on January 2, 2007, terminates on January 3, 2011 and has a fair value as of December 31, 2006 of approximately $(67,000).

8. Commitments and contingencies

Employee retirement savings plan

We have a retirement savings plan pursuant to Section 401(k) of the Internal Revenue Code whereby our employees may contribute a portion of their compensation to their respective retirement accounts, in an amount not to exceed the maximum allowed under the Internal Revenue Code. In addition to employee contributions, we have elected to provide discretionary profit sharing contributions (subject to statutory limitations), which amounted to $850,000, $552,000, and $515,000, respectively, for the years ended December 31, 2006, 2005 and 2004. Employees who participate in the plan are immediately vested in their contributions and in the contributions of the company.

Concentration of credit risk

We maintain our cash and cash equivalents at insured financial institutions. The combined account balances at each institution periodically exceed FDIC insurance coverage, and, as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage. We believe that the risk is not significant.

We are dependent on rental income from relatively few tenants in the life science industry. The inability of any single tenant to make its lease payments could adversely affect our operations. As of December 31, 2006, we held 370 leases with a total of 310 tenants and 80 of our 159 properties were each leased to a single tenant. At December 31, 2006, our three largest tenants accounted for approximately 14.9% of our aggregate annualized base rent.

We generally do not require collateral or other security from our tenants, other than security deposits. In addition to security deposits held in cash, we held $58.7 million in irrevocable letters of credit available from certain tenants as security deposits for 110 leases as of December 31, 2006.

Commitments

As of December 31, 2006, we were committed under the terms of contracts to complete the construction of properties undergoing development and land held for development at a remaining aggregate cost of approximately $58.8 million.

As of December 31, 2006, we were also committed to fund approximately $33.7 million for the construction of building infrastructure improvements under the terms of leases and/or construction contracts and approximately $23.4 million for certain investments.

As of December 31, 2006, we were committed under the terms of ten ground leases. These lease obligations totaling approximately $352.5 million have remaining lease terms of 26 to 58 years, exclusive of extension options. In addition, as of December 31, 2006, we were committed under the terms of certain operating leases for our headquarters and field offices. These lease obligations totaling approximately $5.9 million have remaining lease terms of one to six years, exclusive of extension options. Included in our ground lease obligations as of December 31, 2006 is a ground lease related to our ground-up development project in New York City totaling approximately 725,000 rentable square feet. This ground lease obligation has a remaining term of 99 years, inclusive of extension options.

9. Minority interest

Minority interest represents the interests in a limited partnership and in three limited liability companies held by certain third parties, which own nine properties and one development parcel, and are included in our consolidated financial statements. We recognize minority interest in these entities in which we have a controlling interest. Minority interest is adjusted for additional contributions, distributions to minority holders and the minority holders' proportionate share of the net earnings or losses of each respective entity. Distributions, profits and losses related to these entities are allocated in accordance with the respective operating agreements. As of December 31, 2006, the aggregate minority interest balance related to these entities was approximately $57.5 million and is classified as minority interest in the accompanying consolidated balance sheet.

10. Issuances of common stock

In September 2006, we sold 2,500,000 shares of our common stock in a follow-on offering. The shares were issued at a price of $94.75 per share, resulting in aggregate proceeds of approximately $232.2 million (after deducting underwriting discounts and other offering costs).

In June 2006, we sold 3,795,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $84.00 per share, resulting in

aggregate proceeds of approximately $303.1 million (after deducting underwriting discounts and other offering costs).

In September 2005, we sold 1,248,000 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $81.00 per share, resulting in net proceeds of approximately $100.3 million (after deducting underwriting discounts and other offering costs).

In March 2005, we sold 1,437,500 shares of our common stock in a follow-on offering (including the shares issued upon exercise of the underwriter's over-allotment option). The shares were issued at a price of $62.51 per share, resulting in net proceeds of approximately $89.1 million (after deducting underwriting discounts and other offering costs).

11. Preferred stock and excess stock

Series A cumulative redeemable preferred stock

In July 2004, we redeemed all 1,543,500 outstanding shares of our 9.50% Series A cumulative redeemable preferred stock ("Series A preferred stock") at a redemption price of $25.00 per share plus $0.5409722 per share representing accumulated and unpaid dividends to the redemption date. In accordance with EITF Topic D-42, we recorded a charge of approximately $1,876,000 to net income available to common stockholders during the second quarter of 2004 for costs related to the redemption of the Series A preferred stock. We redeemed our Series A preferred stock with proceeds from the Series C preferred stock offering.

Series B cumulative redeemable preferred stock

In January 2002, we completed a public offering of 2,300,000 shares of our 9.10% Series B cumulative redeemable preferred stock ("Series B preferred stock") (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of $25.00 per share, resulting in aggregate proceeds of approximately $55.1 million (after deducting underwriters' discounts and other offering costs). The dividends on our Series B preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of $2.275 per share. Our Series B preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to January 22, 2007, except in order to preserve our status as a REIT. Investors in our Series B preferred stock generally have no voting rights. On or after January 22, 2007, we may, at our option, redeem our Series B preferred stock, in whole or in part, at any time with proceeds from the sale of equity securities at a redemption price of $25.00 per share, plus accrued and unpaid dividends.

In February 2007, we announced that we will redeem all 2,300,000 outstanding shares of our Series B preferred stock at a redemption price of $25.00 per share plus $0.4107639 per share representing accumulated and unpaid dividends through the redemption date of March 20, 2007.

Series C cumulative redeemable preferred stock

In June 2004, we completed a public offering of 5,185,500 shares of our 8.375% Series C cumulative redeemable preferred stock ("Series C preferred stock") (including the shares issued upon exercise of the underwriters' over-allotment option). The shares were issued at a price of $25.00 per share, resulting in aggregate proceeds of approximately $124.0 million (after deducting underwriters' discounts and other offering costs). The proceeds were used to redeem our Series A preferred stock with the remaining portion used to pay down our unsecured line of credit. The dividends on our Series C preferred stock are cumulative and accrue from the date of original issuance. We pay dividends quarterly in arrears at an annual rate of $2.09375 per share. Our Series C preferred stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and is not redeemable prior to June 29, 2009, except in order to preserve our status as a REIT. Investors in our Series C preferred stock generally have no voting

rights. On or after June 29, 2009, we may, at our option, redeem our Series C preferred stock, in whole or in part, at any time for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends.

Preferred stock and excess stock authorizations

Our charter authorizes the issuance of up to 100,000,000 shares of preferred stock, of which 7,485,500 shares were issued and outstanding as of December 31, 2006. In addition, 200,000,000 shares of "excess stock" (as defined) are authorized, none of which were issued and outstanding at December 31, 2006.

12. Stock option plans and stock grants

1997 Stock plan

In 1997, we adopted a stock option and incentive plan (the "Stock Plan") for the purpose of attracting and retaining the highest quality personnel, providing for additional incentives and promoting the success of the company by providing employees the opportunity to acquire common stock pursuant to (i) options to purchase common stock; and (ii) share awards. As of December 31, 2006, a total of 942,283 shares were reserved for the granting of future options and share awards under the Stock Plan.

Options under our plan have been granted at prices that are equal to the market value of the stock on the date of grant and expire ten years after the date of grant. We have not granted any stock options since 2002. The options outstanding under the Stock Plan expire at various dates through October 2012.

The fair values of the options issued under the Stock Plan were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 2006, 2005 and 2004:

	Year Ended December 31,		
	2006	2005	2004
Risk-free interest rate	4.64%	4.34%	3.94%
Dividend yield	2.71%	3.19%	3.79%
Volatility factor of the expected market price	20.83%	21.14%	21.50%
Weighted average expected life of the options	5.0 years	5.2 years	6.7 years

A summary of the stock option activity under our Stock Plan and related information for the years ended December 31, 2006, 2005 and 2004 follows:

	2006		2005		2004	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	492,016	$ 34.92	607,331	$ 35.36	809,583	$ 35.39
Granted	--	--	--	--	--	--
Exercised	(153,336)	27.69	(115,315)	37.22	(200,252)	35.44
Forfeited	--	--	--	--	(2,000)	42.15
Outstanding at end of year	338,680	$ 38.20	492,016	$ 34.92	607,331	$ 35.36

Exercisable at end of year	338,680	$ 38.20	492,016	$ 34.92	500,000	$ 33.38
Weighted average fair value of options granted		$ -		$ -		$ -

The following table summarizes information about stock options outstanding at December 31, 2006:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Weighted Average Exercise Price	Number of Options	Weighted Average Remaining Contractual Life
$20.00 - $37.00	$27.21	116,310	1.4
$38.38 - $43.50	$40.95	123,466	4.8
$47.20 - $47.69	$47.69	98,904	5.5
$20.00-$47.69	$38.20	338,680	3.8

In addition, the Stock Plan permits us to issue share awards to our employees and non-employee directors. A share award is an award of common stock, which (i) may be fully vested upon issuance or (ii) may be subject to the risk of forfeiture under Section 83 of the Internal Revenue Code. Shares issued generally vest over a one to three year period from the date of issuance and the sale of the shares is restricted prior to the date of vesting. The unearned portion of these awards is amortized as stock compensation expense on a straight-line basis over the vesting period.

As of December 31, 2006 and 2005 there were 444,349 and 271,537 nonvested share awards outstanding, respectively. During 2006, we granted 286,569 shares of common stock, 105,782 of share awards vested and 7,975 of shares were forfeited. The weighted average grant-date fair value of share awards granted during 2006 was approximately $91.36 and the total fair value of share awards vested, based on the market price on the vesting date, was approximately $11.9 million. As of December 31, 2006, there was $24.3 million of unrecognized compensation related to nonvested share awards under the Stock Plan, which is expected to be recognized over a weighted average period of approximately 2 years.

13. Non-cash transactions

During the year ended December 31, 2006, our non-cash transactions related to one transaction in connection with the acquisitions of seven properties located in the Eastern Massachusetts market and another transaction in connection with the acquisitions of one land parcel located in the San Francisco Bay market. During the year ended December 31, 2005, our non-cash transactions related to acquisitions of seven properties, in seven separate transactions, located in the San Francisco Bay, Suburban Washington D.C., Eastern Massachusetts, Seattle and Canada markets. The following table summarizes these transactions (in thousands):

	2006	2005	2004
Aggregate purchase price	$ 608,363	$ 55,400	$ 185,912
Minority interest	36,898	--	--
Notes payable	232,525	31,853	127,653
Cash paid for the properties	$ 338,940	$ 23,547	$ 58,259

The following is a summary of operations and net assets of the properties included in discontinued operations presented in compliance with SFAS 144 (in thousands):

	Year Ended December 31,		
	2006	2005	2004
Total revenue	$ 2,402	$ 6,073	$ 4,998
Operating expenses	548	1,453	1,351
Revenue less operating expenses	1,854	4,620	3,647
Interest	--	--	--
Depreciation	467	1,423	1,176
Income before gain/loss on sales of property	1,387	3,197	2,471
Gain/loss on sales of property	59	36	1,627
Income from discontinued operations, net	$ 1,446	$ 3,233	$ 4,098

	December 31,	
	2006	2005
Properties held for sale, net	$ 6,160	$ --
Other assets	1,156	--
Total assets	$ 7,316	$ --
Total liabilities	--	--
Net assets of discontinued operations	$ 7,316	$ --

Income from discontinued operations, net for 2006 includes the results of operations of one property that was designated as "held for sale" as of December 31, 2006, and three properties sold during 2006, Income from discontinued operations, net for 2005 reflects the results of operations of one property that was designated as "held

14. Discontinued operations (continued)

for sale" as of December 31, 2006, three properties sold during 2006 and one property sold during 2005. Income from discontinued operations, net for 2004 reflects the results of operations of one property that was designated as "held for sale" as of December 31, 2006, three properties sold during 2006, one property sold during 2005 and one property sold in 2004. See Note 2, Basis of Presentation and Summary of Significant Accounting Policies.

As of December 31, 2006, we had one property designated as "held for sale" in accordance with SFAS 144. During 2006, we sold one property located in the New Jersey/Suburban Philadelphia market and two properties located in the Suburban Washington D.C. market . The total sale price for these properties was approximately $41.8 million. In connection with this sale, we recorded a gain on sale of property of approximately $59,000. During 2005, we sold one property located in the Southeast market. The total sale price for the property was approximately $1.3 million. In connection with this sale, we recorded a gain on sale of property of approximately $36,000. During 2004, we sold one property located in the Suburban Washington D.C. market. 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. Gains and losses on sales of these properties are included in the income statement in income from discontinued operations, net.

15. Quarterly financial data (unaudited)

The following is a summary of consolidated financial information on a quarterly basis for 2006 and 2005:

	Quarter			
	First	Second	Third	
	(In thousands, except per share amounts			
2006				
Revenues	$ 68,283	$ 70,187	$ 84,911	$
Net income available to common stockholders	$ 12,733	$ 13,139	$ 14,942	$
Earnings per share:				
Basic	$ 0.57	$ 0.57	$ 0.57	$
Diluted	$ 0.56	$ 0.57	$ 0.56	$

	Quarter			
	First	Second	Third	
	(In thousands, except per share amounts			
2005				
Revenues	$ 54,764	$ 56,987	$ 61,735	$
Net income available to common stockholders	$ 10,967	$ 12,250	$ 11,969	$
Earnings per share:				
Basic	$ 0.56	$ 0.59	$ 0.57	$
Diluted	$ 0.55	$ 0.58	$ 0.56	$

16. Subsequent events

In January 2007, we completed a private offering of $460 million of convertible notes that are due in 2027 (the "Notes") with a coupon of 3.70%. The Notes have an initial conversion rate of approximately 8.4774 common shares per $1,000 principal amount of the Notes representing a conversion price of approximately $117.96 per share of the Company's common stock and a conversion premium of 20% based on the last reported sale price of $98.30 per share of the Company's common stock on January 10, 2007. The net proceeds from this offering, after underwriters' discount, were approximately $450.8 million.

Holders of the Notes may convert their Notes into cash and, if applicable, shares of the Company's common stock prior to stated maturity only under the following circumstances: (1) the Notes will be convertible during any calendar quarter after the calendar quarter ending March 31, 2007, if the closing sale price of the Company's common stock for each of 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 120% of the conversion price in effect on the last trading day of the immediately preceding calendar quarter; (2) the Notes will be convertible during the five consecutive business days immediately after any five consecutive trading day period (the "Note Measurement Period") in which the average trading price per $1,000 principal amount of Notes was equal to or less than 98% of the average conversion value of the Notes during the Note measurement period; (3) the Notes will convertible upon the occurrence of specified corporate transactions; (4) the Notes will be convertible if the Company has called the Notes for redemption; and (5) the Notes will convertible at any time from, and including, December 15, 2026 until the close of business on the business day immediately preceding January 15, 2027 or earlier redemption or repurchase.

Prior to January 15, 2012, the Company will not have the right to redeem the Notes, except to preserve its qualification as a real estate investment trust. On and after that date, we have the right to redeem the Notes, in whole or in part, at any time and from time to time, for cash equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest to, but excluding, the redemption date.

Holders of the Notes may require the Company to repurchase their Notes, in whole or in part, on January 15, 2012, 2017 and 2022 for cash equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest to but excluding the repurchase date.

Alexandria Real Estate Equities, Inc. and Subsidiaries
Schedule III
Consolidated Financial Statement Schedule of Rental Properties and Accumulated Depreciation
December 31, 2006
(Dollars in thousands)

Property Name	Square Footage (unaudited)	Initial Costs: Land	Initial Costs: Buildings and Improvements	Costs Capitalized Subsequent to Acquisition	Total C: Land	Bu Im
California - Los Angeles Metro	31,343	$ 2,172	$ 812	$ 10,627	$ 2,172	$
California - Los Angeles Metro	29,660	928	4,280	118	928	
California - San Diego	107,709	1,321	5,960	7,407	1,321	
California - San Diego	74,557	1,013	-	16,802	1,013	
California - San Diego	44,733	620	9,531	9,667	620	
California - San Diego	86,962	2,663	10,649	5,223	2,663	
California - San Diego	76,084	2,651	18,046	1,460	2,651	
California - San Diego	43,600	1,227	9,554	330	1,227	
California - San Diego	18,173	463	1,840	2,787	463	
California - San Diego	67,050	2,548	13,638	263	2,548	
California - San Diego	64,000	2,248	10,952	14,261	2,248	
California - San Diego	34,723	1,122	-	3,881	1,122	
California - San Diego	55,200	1,683	-	5,647	1,683	
California - San Diego	29,333	733	2,273	1,878	733	
California - San Diego	17,603	444	1,699	1,842	444	
California - San Diego	15,410	651	1,375	1,922	651	
California - San Diego	45,030	275	8,621	3,666	275	
California - San Diego	51,768	320	10,070	2,965	320	
California - San Diego	41,780	258	8,170	8,725	258	
California - San Diego	17,590	506	2,581	2,352	506	
California - San Diego	30,147	754	4,288	619	754	
California - San Diego	22,577	564	3,224	43	564	
California - San Diego	17,433	436	2,480	431	436	
California - San Diego	24,208	605	3,459	42	605	
California - San Diego	21,940	515	1,566	2,502	515	
California - San Diego	71,510	4,329	16,165	10,497	4,329	
California - San Diego	56,698	1,984	10,397	238	1,984	
California - San Diego	87,140	10,124	9,448	4,233	10,124	
California - San Diego	87,298	3,492	18,285	212	3,492	
California - San Francisco Bay	61,015	1,506	5,357	3,691	1,506	
California - San Francisco Bay	27,745	775	1,917	1,632	775	
California - San Francisco Bay	47,777	1,200	3,880	447	1,200	
California - San Francisco Bay	68,711	1,800	9,731	755	1,800	
California - San Francisco Bay	153,837	4,751	12,612	14,476	4,751	
California - San Francisco Bay	32,074	-	6,628	8,385	-	
California - San Francisco Bay	98,964	-	21,323	20,954	-	
California - San Francisco Bay	53,980	3,519	-	12,941	3,519	
California - San Francisco Bay	53,980	3,519	-	7,671	3,519	
California - San Francisco Bay	110,428	7,730	24,397	24	7,730	
California - San Francisco Bay	59,816	4,187	14,020	25	4,187	
California - San Francisco Bay	126,971	8,250	33,846	4,287	8,250	
California - San Francisco Bay	67,482	1,349	9,915	372	1,349	
California - San Francisco Bay	91,644	-	19,154	1,150	-	
California - San Francisco Bay	140,143	7,038	39,704	3,337	7,038	

California – San Francisco Bay	60,000	4,800	6,693	4,412	4,800
California – San Francisco Bay	116,284	28,290	–	17	28,290
California – San Francisco Bay	58,400	3,568	5,255	572	3,568
California – San Francisco Bay	82,712	6,617	7,091	667	6,617
California – San Francisco Bay	70,328	9,799	–	24	9,799
California – San Francisco Bay	150,960	25,259	48,796	–	25,259
Eastern Massachusetts	24,940	–	6,247	399	–
Eastern Massachusetts	24,867	622	3,053	70	622
Eastern Massachusetts	40,200	960	3,032	8,196	960
Eastern Massachusetts	115,179	2,734	14,567	4,545	2,734
Eastern Massachusetts	92,711	2,352	14,173	2,512	2,352
Eastern Massachusetts	92,423	651	–	15,860	651
Eastern Massachusetts	92,500	3,360	7,316	14,719	3,360
Eastern Massachusetts	59,000	1,475	7,194	11,426	1,475
Eastern Massachusetts	51,000	6,507	–	21,759	6,507
Eastern Massachusetts	47,497	6,058	–	21,345	6,058
Eastern Massachusetts	96,150	6,413	5,457	30,885	6,413
Eastern Massachusetts	46,700	2,567	4,522	9,763	2,567
Eastern Massachusetts	78,916	1,578	10,195	901	1,578
Eastern Massachusetts	11,774	228	1,501	301	228
Eastern Massachusetts	48,640	876	5,033	17	876
Eastern Massachusetts	60,759	1,220	22,375	44	1,220
Eastern Massachusetts	82,330	1,466	9,046	3,931	1,466
Eastern Massachusetts	26,828	1,341	8,448	50	1,341
Eastern Massachusetts	128,325	12,833	27,333	55	12,833
Eastern Massachusetts	30,000	750	3,312	37	750
Eastern Massachusetts	45,820	2,775	7,679	5,071	2,775
Eastern Massachusetts	36,000	1,440	5,238	15	1,440
Eastern Massachusetts	38,000	893	4,000	81	893
Eastern Massachusetts	26,589	1,628	3,554	3,369	1,628
Eastern Massachusetts	54,391	1,278	7,057	22	1,278
Eastern Massachusetts	131,547	15,774	54,481	12,406	15,774
Eastern Massachusetts	113,045	2,261	7,099	4,014	2,261
Eastern Massachusetts	97,566	2,342	9,892	30	2,342
Eastern Massachusetts	1,136,734	–	619,658	2,638	–
Eastern Massachusetts	27,960	2,209	9,059	–	2,209
Eastern Massachusetts	184,577	58,697	38,331	–	58,697
Eastern Massachusetts	132,135	36,852	5,377	–	36,852
International – Canada	68,000	2,930	17,735	1,050	2,930
International – Canada	162,362	6,995	20,651	535	6,995
International – Canada	66,000	2,281	8,612	198	2,281
New Jersey/Suburban Philadelphia	42,782	654	4,234	738	654
New Jersey/Suburban Philadelphia	40,000	600	3,110	3,542	600
New Jersey/Suburban Philadelphia	41,015	621	4,258	28	621
New Jersey/Suburban Philadelphia	111,451	1,289	12,039	70	1,289
New Jersey/Suburban Philadelphia	50,000	1,625	19,715	98	1,625
New Jersey/Suburban Philadelphia	37,000	740	4,506	1,266	740
New Jersey/Suburban Philadelphia	78,501	1,840	2,298	14,565	1,840
New Jersey/Suburban Philadelphia	42,600	1,161	1,438	4,423	1,161
Southeast	20,580	214	3,802	5	214
Southeast	65,114	337	5,795	1,325	337
Southeast	59,397	288	5,789	5,840	288
Southeast	60,519	289	5,899	7,477	289
Southeast	32,120	161	3,410	261	161
Southeast	82,206	–	376	11,842	–
Southeast	38,861	339	3,383	7,168	339
Southeast	46,557	363	9,101	8,452	363
Southeast	48,236	364	8,734	6	364
Southeast	81,580	713	12,827	442	713
Southeast	77,395	785	11,546	–	785
Southeast	45,841	2,916	5,314	1,349	2,916
Suburban Washington D.C.	105,000	1,733	9,611	3,482	1,733

Suburban Washington D.C.	47,558	871	5,362	3,095	871	
Suburban Washington D.C.	63,154	1,129	6,940	1,012	1,129	
Suburban Washington D.C.	138,938	3,281	14,416	207	3,281	
Suburban Washington D.C.	44,500	775	4,122	350	775	
Suburban Washington D.C.	131,415	2,800	11,533	20,962	2,800	
Suburban Washington D.C.	49,225	1,267	3,031	5,168	1,267	
Suburban Washington D.C.	44,464	900	2,732	1,592	900	
Suburban Washington D.C.	72,170	1,514	21,946	3,627	1,514	
Suburban Washington D.C.	45,989	748	3,609	1,599	748	
Suburban Washington D.C.	191,884	-	13,679	1,669	-	
Suburban Washington D.C.	75,500	1,510	5,210	1,849	1,510	
Suburban Washington D.C.	143,585	2,463	493	23,577	2,463	
Suburban Washington D.C.	25,175	376	3,192	2,199	376	
Suburban Washington D.C.	53,464	971	5,141	6,936	971	
Suburban Washington D.C.	54,000	947	5,092	5,002	947	
Suburban Washington D.C.	54,874	970	5,138	919	970	
Suburban Washington D.C.	59,838	983	6,638	105	983	
Suburban Washington D.C.	58,632	1,466	5,708	4,182	1,466	
Suburban Washington D.C.	92,449	2,773	23,906	3,856	2,773	
Suburban Washington D.C.	49,185	1,476	7,267	37	1,476	
Suburban Washington D.C.	37,861	2,576	5,661	55	2,576	
Suburban Washington D.C.	343,100	10,052	106,240	17,895	10,052	
Suburban Washington D.C.	54,906	1,647	13,258	3,586	1,647	
Suburban Washington D.C.	180,650	5,527	26,365	3,649	5,527	
Suburban Washington D.C.	26,127	784	4,705	85	784	
Suburban Washington D.C.	83,541	2,924	19,664	433	2,924	
Suburban Washington D.C.	248,186	4,800	27,639	390	4,800	
Washington - Seattle	164,345	5,654	22,916	18,191	5,654	
Washington - Seattle	70,647	2,119	11,275	4,781	2,119	
Washington - Seattle	47,746	1,432	7,497	3,323	1,432	
Washington - Seattle	106,003	4,240	31,232	25	4,240	
Washington - Seattle	97,366	1,570	15,917	14,929	1,570	
Washington - Seattle	165,493	6,940	-	60,427	6,940	
Washington - Seattle	32,279	2,156	1,645	5,933	2,156	
Washington - Seattle	2,896	1,700	344	103	1,700	
Washington - Seattle	121,790	8,525	20,064	197	8,525	
Washington - Seattle	27,633	2,212	6,788	347	2,212	
Washington - Seattle	24,000	5,134	-	19	5,134	
Washington - Seattle	19,053	5,114	-	319	5,114	
	11,232,351	$482,310	$ 2,044,459	$ 677,732	$482,310	$

1. The depreciable life for buildings and improvements ranges from 30 to 40 years, 20 for land improvements, and the term of the respective lease for tenant improvements.
2. Loan of $36,655 secured by 4 properties identified by this reference.
3. Loan of $31,600 secured by 4 properties identified by this reference.
4. Loan of $88,581 secured by 6 properties identified by this reference.
5. Loan of $22,915 secured by 6 properties identified by this reference.
6. The balance shown includes an unamortized premium of $1,212.
7. Loan of $32,070 secured by 2 properties identified by this reference.
8. Loan of $145,391 secured by 4 properties identified by this reference.
9. The balance shown includes an unamortized premium of $44.
10. Loan of $14,541 secured by 1 property identified by this reference and a property undergoing development.
11. Loan of $32,880 secured by 2 properties identified by this reference.
12. The balance shown includes an unamortized premium of $260.
13. Loan of $23,438 secured by 2 properties identified by this reference.
14. Loan of $28,866 secured by 3 properties identified by this reference.
15. Loan of $26,903 secured by 3 properties identified by this reference.

16. Loan of $9,319 secured by 3 properties identified by this reference.
17. The balance shown includes an unamortized premium of $794.
18. The balance shown includes an unamortized premium of $195.
19. Loan of $17,877 secured by 2 properties identified by this reference.
20. Loan of $36,486 secured by 4 properties identified by this reference.
21. Loan of $9,155 secured by 2 properties identified by this reference.
22. The balance shown includes an unamortized premium of $343.
23. The balance shown includes an unamortized premium of $241.
24. The balance shown includes an unamortized premium of $90.
25. The balance shown includes an unamortized discount of $4,359.
26. The balance shown includes an unamortized premium of $145.
27. The aggregate cost of real estate for federal income tax purposes is not materially different from the cost basis under GAAP (unaudited).
28. Excludes $175,200 of encumbrances primarily related to 11 land parcels.

A summary of activity of consolidated rental properties and accumulated depreciation is as follows (in thousands):

	Rental Properties Year Ended December 31,		
	2006	2005	2004
Balance at beginning of period	$ 2,009,708	$ 1,603,912	$ 1,123,857
Purchase of rental properties	1,030,439	272,532	383,350
Sale of properties	(41,913)	(1,237)	(4,084)
Additions	76,717	94,210	70,248
Transfer of costs from properties under development and land held for development	129,550	40,291	30,541
Balance at end of period	$ 3,204,501	$ 2,009,708	$ 1,603,912