BOSTON PROPERTIES INC
Form 10-Q
May 12, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2008

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

Commission File Number 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**04-2473675**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Id. Number)**

Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103

(Address of Principal Executive Offices) (Zip Code)

(617) 236-3300

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, par value $.01 per share	**119,699,830**
(Class)	**(Outstanding on May 2, 2008)**

BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended March 31, 2008

TABLE OF CONTENTS

		Page
PART I. FINANCIAL INFORMATION		
ITEM 1.	Financial Statements (unaudited).	
	a) Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007	1
	b) Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007	2
	c) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2008 and 2007	3
	d) Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007	4
	e) Notes to the Consolidated Financial Statements	6
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	24
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk	55
ITEM 4.	Controls and Procedures	57
PART II. OTHER INFORMATION		
ITEM 1.	Legal Proceedings	57
ITEM 1A.	Risk Factors	58
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	58
ITEM 3.	Defaults Upon Senior Securities	58
ITEM 4.	Submission of Matters to a Vote of Security Holders	58
ITEM 5.	Other Information	59
ITEM 6.	Exhibits	59
SIGNATURES		60

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1 Financial Statements.

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except for share and par value amounts)

	March 31, 2008	December 31, 2007
ASSETS		
Real estate, at cost	$ 9,231,874	$ 9,077,528
Real estate held for sale, net		221,606
Construction in process	619,165	700,762
Land held for future development	266,555	249,999
Less: accumulated depreciation	(1,589,686)	(1,531,707)
Total real estate	8,527,908	8,718,188
Cash and cash equivalents	794,643	1,506,921
Cash held in escrows	57,640	186,839
Investments in securities	23,404	22,584
Tenant and other receivables (net of allowance for doubtful accounts of $1,804 and $1,901, respectively)	34,580	58,074
Related party note receivable	100,000	
Accrued rental income (net of allowance of $1,426 and $829, respectively)	313,011	300,594
Deferred charges, net	294,002	287,199
Prepaid expenses and other assets	51,357	30,566
Investments in unconsolidated joint ventures	152,942	81,672
Total assets	$ 10,349,487	$ 11,192,637
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgage notes payable	$ 2,760,620	$ 2,726,127
Unsecured senior notes (net of discount of $2,973 and $3,087, respectively)	1,472,027	1,471,913
Unsecured exchangeable senior notes (net of discount of $17,315 and $18,374, respectively)	1,295,185	1,294,126
Accounts payable and accrued expenses	128,769	145,692
Dividends and distributions payable	105,150	944,870
Accrued interest payable	47,355	54,487
Other liabilities	221,432	232,705
Total liabilities	6,030,538	6,869,920
Commitments and contingencies		
Minority interests	654,512	653,892
Stockholders equity:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding		
Preferred stock, $.01 par value, 50,000,000 shares authorized, none issued or outstanding		
Common stock, $.01 par value, 250,000,000 shares authorized, 119,747,970 and 119,581,385 issued and 119,669,070 and 119,502,485 outstanding in 2008 and 2007, respectively	1,197	1,195
Additional paid-in capital	3,317,643	3,305,219

Earnings in excess of dividends	401,410	394,324
Treasury common stock at cost, 78,900 shares in 2008 and 2007	(2,722)	(2,722)
Accumulated other comprehensive loss	(53,091)	(29,191)
Total stockholders equity	3,664,437	3,668,825
Total liabilities and stockholders equity	$ 10,349,487	$ 11,192,637

The accompanying notes are an integral part of these financial statements.

1

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended March 31, 2008	2007
	(in thousands, except for per share amounts)	
Revenue		
Rental:		
Base rent	$ 281,394	$ 270,672
Recoveries from tenants	48,884	46,286
Parking and other	16,501	15,321
Total rental revenue	346,779	332,279
Hotel revenue	6,524	6,709
Development and management services	5,477	4,727
Interest and other	11,779	16,988
Total revenue	370,559	360,703
Expenses		
Real estate operating:		
Rental	117,733	112,871
Hotel	5,897	6,014
General and administrative	19,588	16,808
Interest	67,839	73,926
Depreciation and amortization	74,671	69,772
Net derivative losses	3,788	
Losses from early extinguishments of debt		722
Total expenses	289,516	280,113
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	81,043	80,590
Minority interests in property partnerships	(625)	
Income from unconsolidated joint ventures	1,042	965
Income before minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	81,460	81,555
Minority interest in Operating Partnership	(13,024)	(10,928)
Income before gains on sales of real estate and discontinued operations	68,436	70,627
Gains on sales of real estate, net of minority interest	20,025	619,206
Income before discontinued operations	88,461	689,833
Discontinued operations:		
Income from discontinued operations, net of minority interest		2,626
Gain on sale of real estate from discontinued operations, net of minority interest		161,848
Net income available to common shareholders	$ 88,461	$ 854,307
Basic earnings per common share:		
Income available to common shareholders before discontinued operations	$ 0.74	$ 5.75

Discontinued operations, net of minority interest				1.39
Net income available to common shareholders	$	0.74	$	7.14
Weighted average number of common shares outstanding		119,536		118,177
Diluted earnings per common share:				
Income available to common shareholders before discontinued operations	$	0.73	$	5.63
Discontinued operations, net of minority interest				1.36
Net income available to common shareholders	$	0.73	$	6.99
Weighted average number of common and common equivalent shares outstanding		121,022		120,647

The accompanying notes are an integral part of these financial statements

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(Unaudited)

	Three months ended March 31, 2008	Three months ended March 31, 2007
	(in thousands)	
Net income available to common shareholders	$ 88,461	$ 854,307
Other comprehensive income (loss):		
Effective portion of interest rate contracts	(23,802)	
Amortization of interest rate contracts	(98)	84
Other comprehensive income (loss)	(23,900)	84
Comprehensive income	$ 64,561	$ 854,391

The accompanying notes are an integral part of these financial statements

3

Table of Contents

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31, 2008	2007
	(in thousands)	
Cash flows from operating activities:		
Net income available to common shareholders	$ 88,461	$ 854,307
Adjustments to reconcile net income available to common shareholders to net cash provided by operating activities:		
Depreciation and amortization	74,671	71,086
Non-cash portion of interest expense	2,360	2,306
Non-cash compensation expense	5,433	3,214
Losses from early extinguishments of debt		722
Net derivative losses	3,788	
Losses on investments in securities	846	
Minority interests in property partnerships	625	
Distributions in excess of earnings from unconsolidated joint ventures	897	1,473
Minority interest in Operating Partnership	16,437	152,712
Gains on sales of real estate	(23,438)	(922,378)
Change in assets and liabilities:		
Cash held in escrows	2,878	2,620
Tenant and other receivables, net	23,494	6,253
Accrued rental income, net	(12,417)	(13,020)
Prepaid expenses and other assets	(29,098)	(23,028)
Accounts payable and accrued expenses	(10,541)	(6,511)
Accrued interest payable	(7,132)	1,476
Other liabilities	(13,919)	(1,302)
Tenant leasing costs	(20,531)	(4,754)
Total adjustments	14,353	(729,131)
Net cash provided by operating activities	102,814	125,176
Cash flows from investing activities:		
Acquisitions/additions to real estate	(91,509)	(505,821)
Proceeds from redemptions of investments in securities	6,641	
Net investments in unconsolidated joint ventures	(72,167)	(9,717)
Net proceeds from the sale of real estate released from escrow	126,321	
Proceeds from note receivable	23,000	
Net proceeds from the sales of real estate	98,074	1,461,014
Net cash provided by investing activities	90,360	945,476

The accompanying notes are an integral part of these financial statements

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31, 2008	2007
	(in thousands)	
Cash flows from financing activities:		
Borrowings on unsecured line of credit		185,000
Repayments of unsecured line of credit		(185,000)
Proceeds from mortgage notes payable	65,232	938,740
Repayments of mortgage notes payable	(30,739)	(711,664)
Proceeds from unsecured exchangeable senior notes		840,363
Proceeds from real estate financing transaction		1,610
Payments on real estate financing transactions	(1,523)	(2,915)
Dividends and distributions	(936,390)	(845,500)
Net proceeds from equity transactions	(1,528)	12,881
Contributions from (distributions to) minority interest holders, net	(458)	1,723
Redemption of minority interest		(10,625)
Deferred financing costs	(46)	(4,717)
Net cash provided by (used in) financing activities	(905,452)	219,896
Net increase (decrease) in cash and cash equivalents	(712,278)	1,290,548
Cash and cash equivalents, beginning of period	1,506,921	725,788
Cash and cash equivalents, end of period	$ 794,643	$ 2,016,336
Supplemental disclosures:		
Cash paid for interest	$ 82,096	$ 74,452
Interest capitalized	$ 9,485	$ 4,308
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	$ 2,304	$ 4,056
Dividends and distributions declared but not paid	$ 105,150	$ 105,284
Conversions of Minority interests to Stockholders equity	$ 3,298	$ 23,202
Basis adjustment to real estate in connection with conversions of Minority interests to Stockholders equity	$ 7,832	$ 96,408
Mortgage notes payable assumed in connection with the acquisition of real estate	$	$ 65,224
Note receivable issued in connection with the transfer of real estate	$ 123,000	$
Issuance of restricted securities to employees and directors	$ 42,861	$ 17,658

The accompanying notes are an integral part of these financial statements

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Boston Properties, Inc. (the Company), a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT). The Company is the sole general partner of Boston Properties Limited Partnership (the Operating Partnership) and at March 31, 2008 owned an approximate 84.2% (84.0% at March 31, 2007) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as common units of partnership interest (also referred to as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units). In addition, in February 2008, the Company issued LTIP Units in connection with the granting to employees of 2008 outperformance awards (also referred to as 2008 OPP Units). Because the rights, preferences and privileges of 2008 OPP Units differ from other LTIP Units granted to employees as part of the annual compensation process, unless specifically noted otherwise, all references to LTIP Units exclude 2008 OPP Units. For a complete description of the terms of the 2008 OPP Units, see Note 11.

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company (Common Stock). In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 11).

At March 31, 2008, there was one series of Preferred Units outstanding (i.e., Series Two Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be converted into OP Units at the election of the holder thereof or the Operating Partnership in accordance with the amendment to the partnership agreement (See also Note 7).

All references herein to the Company refer to Boston Properties, Inc. and its consolidated subsidiaries, including the Operating Partnership, collectively, unless the context otherwise requires.

Properties

At March 31, 2008, the Company owned or had interests in a portfolio of 139 commercial real estate properties (compared to 139 and 135 properties at December 31, 2007 and March 31, 2007, respectively) (the Properties) aggregating approximately 43.9 million net rentable square feet (compared to approximately 43.8 million and 42.9 million net rentable square feet at December 31, 2007 and March 31, 2007, respectively), including 12 properties under construction totaling approximately 3.6 million net rentable square feet, and structured parking for approximately 32,278 vehicles containing approximately 10.0 million square feet. At March 31, 2008, the Properties consist of:

- 135 office properties, including 115 Class A office properties (including 12 properties under construction) and 20 Office/Technical properties;
- one hotel; and
- three retail properties.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company owns or controls undeveloped land parcels totaling approximately 606.2 acres. In addition, the Company has a minority interest in the Boston Properties Office Value-Added Fund, L.P. (the Value-Added Fund), which is a strategic partnership with two institutional investors through which the Company has pursued the acquisition of value-added investments in assets within its existing markets. The Company s investments through the Value-Added Fund are not included in its portfolio information or any other portfolio level statistics. At March 31, 2008, the Value-Added Fund had investments in 26 buildings comprised of an office property in Chelmsford, Massachusetts and office complexes in San Carlos and Mountain View, California.

The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, that attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been modernized to compete with newer buildings. The Company considers Office/Technical properties to be properties that support office, research and development, laboratory and other technical uses.

2. Basis of Presentation and Summary of Significant Accounting Policies

Boston Properties, Inc. does not have any other significant assets, liabilities or operations, other than its investment in the Operating Partnership, nor does it have employees of its own. The Operating Partnership, not Boston Properties, Inc., executes all significant business relationships. All majority-owned subsidiaries and affiliates over which the Company has financial and operating control and variable interest entities (VIE s) in which the Company has determined it is the primary beneficiary are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. The Company accounts for all other unconsolidated joint ventures using the equity method of accounting. Accordingly, the Company s share of the earnings of these joint ventures and companies is included in consolidated net income.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statements and notes thereto contained in the Company s Annual Report in the Company s Form 10-K for its fiscal year ended December 31, 2007.

3. Real Estate Activity During the Three Months Ended March 31, 2008

Development

On February 5, 2008, the Company executed a 60-year ground lease with The George Washington University for the redevelopment of a site at Pennsylvania Avenue and Washington Circle in the District of Columbia as a mixed-use project comprised of approximately 440,000 square feet of office, 84,000 square feet of retail and 328,000 square feet of residential space.

Table of Contents

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the three months ended March 31, 2008, a consolidated joint venture in which the Company has a 50% interest placed in-service 505 9th Street, a 322,000 net rentable square foot Class A office property located in Washington, D.C.

Dispositions

On January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 601,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. In consideration for the transfer, the Company received approximately $98.6 million of cash and a promissory note having a principal amount of $123.0 million. The promissory note bears interest at a fixed rate of 7% per annum and matures in October 2008, subject to extension at the option of the Value-Added Fund until April 2009. On March 27, 2008, the Value-Added Fund repaid $23.0 million of the financing with proceeds from third-party mortgage financing collateralized by the Mountain View Technology Park properties. The outstanding balance of the promissory note totaling $100.0 million at March 31, 2008 has been reflected under the caption Related party note receivable within the Company s Consolidated Balance Sheets.

During the three months ended March 31, 2008, the Company signed a new qualifying lease for approximately 17,454 net rentable square feet of its remaining 25,409 net rentable square foot master lease obligation related to the 2006 sale of 280 Park Avenue resulting in the recognition of approximately $20.0 million (net of minority interest share of approximately $3.4 million) as additional gain on sale of real estate. The Company had deferred approximately $67.3 million of the gain on sale of 280 Park Avenue, which amount represented the maximum obligation under the master lease. As of March 31, 2008, the remaining master lease obligation totaled approximately $2.3 million.

4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at March 31, 2008:

Entity	Properties	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%(1)
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(2)
Wisconsin Place Entities	Wisconsin Place	23.9%(3)(4)
Eighth Avenue and 46th Street Entities	Eighth Avenue and 46th Street	50.0%(3)
Boston Properties Office Value-Added Fund, L.P.	300 Billerica Road, One & Two Circle Star Way and Mountain View Research and Technology Parks	36.9%(2)(5)
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(3)

(1) This joint venture is accounted for under the equity method due to participatory rights of the outside partner.
(2) The Company s economic ownership can increase based on the achievement of certain return thresholds.
(3) These properties are not in operation (i.e., under construction or assembled land).
(4) Represents the Company s effective ownership interest. The Company has a 66.67%, 5% and 0% interest in the office, retail and residential joint venture entities, respectively, which each own a 33.33% interest in the entity developing and owning the land and infrastructure of the

project.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Represents the Company s effective ownership interest. The Company has a 25.0% interest in the 300 Billerica Road and One & Two Circle Star Way properties and a 39.5% interest in the Mountain View Research and Technology Park properties.

Certain of the Company s joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures at an agreed upon fair value. Under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

On January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 601,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. In consideration for the transfer, the Company received approximately $98.6 million of cash and a promissory note having a principal amount of $123.0 million. The promissory note bears interest at a fixed rate of 7% per annum and matures in October 2008, subject to extension at the option of the Value-Added Fund until April 2009. In connection with the transfer of the Research Park and Technology Park properties to the Value-Added Fund, the Company and its partners agreed to certain modifications to the Value-Added Fund s original terms, including bifurcating the Value-Added Fund s promote structure such that Research Park and Technology Park will be accounted for separately from the non-Mountain View properties owned by the Value-Added Fund (i.e., Circle Star and 300 Billerica Road). As a result of the modifications, the Company s interest in the Mountain View properties is approximately 39.5% and its interest in the non-Mountain View properties is 25%. This investment completes the investment commitments from the Value-Added Fund partners. On March 27, 2008, the Value-Added Fund obtained third-party mortgage financing totaling $26.0 million (of which $24.0 million was disbursed at March 31, 2008) collateralized by the Mountain View Technology Park properties. The third-party mortgage financing bears interest at a variable rate equal to LIBOR plus 1.50% per annum and matures on March 31, 2011 with two, one-year extension options. The proceeds of the third-party mortgage financing were used to repay $23.0 million of the financing provided by the Company.

On January 29, 2008, the Wisconsin Place joint venture entity that owns and is developing the land and infrastructure components of the project (the Land and Infrastructure Entity) (a joint venture entity in which the Company owns an effective interest of approximately 23.89%) executed a second amendment to its construction loan agreement. The construction financing consisted of a $69.1 million commitment, bearing interest at a per annum variable rate equal to LIBOR plus 1.50% and maturing on March 11, 2009. The outstanding balance on the construction loan was approximately $52.6 million on the $69.1 million commitment. The amended agreement provides for a reduction in the loan commitment amount to $36.9 million. The reduction relates to the repayment of the office portion of the outstanding balance totaling approximately $24.9 million and an additional reduction in the borrowing capacity of approximately $7.3 million with a corresponding release of collateral in conjunction with the Wisconsin Place joint venture entity that owns and is developing the office component of the project (a consolidated joint venture entity in which the Company owns a 66.67% interest) obtaining new construction financing.

Table of Contents

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The combined summarized balance sheets of the unconsolidated joint ventures are as follows:

	March 31, 2008	December 31, 2007
ASSETS	(in thousands)	
Real estate and development in process, net	$ 929,146	$ 700,646
Other assets	119,486	109,318
Total assets	$ 1,048,632	$ 809,964
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	$ 668,569	$ 565,568
Other liabilities	32,325	39,290
Members /Partners equity	347,738	205,106
Total liabilities and members /partners equity	$ 1,048,632	$ 809,964
Company s share of equity	$ 150,359	$ 79,074
Basis differentials(1)	2,583	2,598
Carrying value of the Company s investments in unconsolidated joint ventures	$ 152,942	$ 81,672

(1) This amount represents the aggregate difference between the Company s historical cost basis and the basis reflected at the joint venture level, which is typically amortized over the life of the related asset. Basis differentials occur primarily upon the transfer of assets that were previously owned by the Company into a joint venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level.

The combined summarized statements of operations of the joint ventures are as follows:

	For the three months ended March 31, 2008	2007
	(in thousands)	
Total revenue	$ 30,340	$ 23,782
Expenses		
Operating	10,585	8,598
Interest	9,815	8,421
Depreciation and amortization	8,606	5,584
Loss from early extinguishment of debt	40	
Total expenses	29,046	22,603
Net income	$ 1,294	$ 1,179

Company s share of net income	$ 1,042	$ 965

5. Mortgage Notes Payable

On January 29, 2008, the Wisconsin Place joint venture entity that owns and is developing the office component of the project (a consolidated joint venture entity in which the Company owns a 66.67% interest) obtained construction financing totaling $115.0 million collateralized by the office property. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum and matures on January 29, 2011 with two, one-year extension options.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On February 1, 2008, the Company used available cash to repay the mortgage loan collateralized by its Reston Corporate Center property located in Reston, Virginia totaling approximately $20.5 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.56% per annum and was scheduled to mature on May 1, 2008.

During 2007, the Company commenced an interest rate hedging program for its expected financing activity in 2008 and entered into 11 treasury locks based on a weighted-average 10-year treasury rate of 4.68% per annum on notional amounts aggregating $375.0 million. Nine of the treasury locks with notional amounts aggregating $325.0 million matured on April 1, 2008. The remaining two treasury locks with notional amounts aggregating $50.0 million mature on July 31, 2008. In addition, the Company entered into five forward-starting interest rate swap contracts to lock the 10-year LIBOR swap rate on notional amounts aggregating $150.0 million at a weighted-average forward-starting 10-year swap rate of 5.19% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the swap contracts effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.51% per annum. The swap contracts go into effect on July 31, 2008 and expire on July 31, 2018. Collectively, all of the foregoing contracts have effectively fixed the 10-year treasury rate at a weighted average interest rate of 4.63% per annum on notional amounts aggregating $525.0 million. The Company entered into the treasury locks and interest rate swap contracts designated and qualifying as cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the hedged rate in contemplation of obtaining ten-year fixed-rate financings in 2008. In addition, during 2007, the Company entered into an interest rate swap to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of $96.7 million. This interest rate swap went into effect on October 22, 2007 and expires on October 29, 2008. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments. The Company has formally documented all of its relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses and documents, both at the hedging instrument s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. All components of the treasury locks and forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. During the quarter ended March 31, 2008, the Company modified the estimated dates with respect to its anticipated financings under the interest rate hedging program. As a result, the Company recognized a net derivative loss of approximately $3.8 million representing the partial ineffectiveness of the interest rate contracts. The Company has recorded the changes in fair value of the treasury lock and swap contracts related to the effective portion totaling approximately $49.0 million in Other Liabilities and Accumulated Other Comprehensive Loss within the Company s Consolidated Balance Sheets. Based on interest rates in effect as of March 31, 2008 and assuming the Company completes financing transactions in accordance with its current plans, the Company expects that within the next twelve months it will reclassify into earnings as an increase in interest expense approximately $3.5 million of the amounts recorded within Accumulated Other Comprehensive Loss relating to the treasury locks and forward-starting interest rate swap contracts.

6. Commitments and Contingencies

General

In the normal course of business, the Company guarantees its performance of services or indemnifies third parties against its negligence.

The Company has letter of credit and performance obligations of approximately $28.4 million related to lender and development requirements.

Table of Contents

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain of the Company s joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures. Under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

Insurance

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, TRIA) was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). Prior to TRIPRA, only acts of foreign terrorism could be certified for coverage under TRIA. Under TRIPRA, acts of both foreign and domestic terrorism can be certified for coverage under TRIA. Currently, the Company s property insurance program per occurrence limits are $1.0 billion, including coverage for both foreign and domestic acts of terrorism certified under TRIA. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage (NBCR Coverage) for both foreign and domestic acts of terrorism certified under TRIA, which is provided by IXP, LLC as a direct insurer, excluding the Company s Value-Added Fund properties. The per occurrence limit for NBCR Coverage is $1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is $100 million and the coinsurance is 10%. Under TRIPRA, if the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. The Company may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in its portfolio or for any other reason. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain insurance in amounts and on terms that are commercially reasonable.

The Company also currently carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that the Company believes are commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, the Company currently carries earthquake insurance which covers its San Francisco region with a $120 million per occurrence limit and a $120 million annual aggregate limit, $20 million of which is provided by IXP, LLC, as a direct insurer. The amount of the Company s earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact the Company s ability to finance properties subject to earthquake risk. The Company may discontinue earthquake insurance on some or all of its properties in the future if the premiums exceed the Company s estimation of the value of the coverage.

In January 2002, the Company formed a wholly-owned taxable REIT subsidiary, IXP, Inc., to act as a captive insurance company and be one of the elements of the Company s overall insurance program. On September 27, 2006, IXP, Inc. was merged into IXP, LLC, a wholly owned subsidiary, and all insurance policies issued by IXP, Inc. were cancelled and reissued by IXP, LLC. The term IXP refers to IXP, Inc. for the period prior to September 27, 2006 and to IXP, LLC for the period on and subsequent to September 27, 2006. IXP acts as a direct insurer with respect to a portion of the Company s earthquake insurance coverage for its Greater San Francisco properties and the Company s NBCR Coverage for both foreign and domestic acts of terrorism certified under TRIA. Insofar as the Company owns IXP, it is responsible for its liquidity and capital resources,

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and the accounts of IXP are part of the Company s consolidated financial statements. In particular, if a loss occurs which is covered by the Company s NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. IXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out under TRIA and if IXP maintains the NBCR policy after the payout by the Federal Government. If the Company experiences a loss and IXP is required to pay under its insurance policy, the Company would ultimately record the loss to the extent of IXP s required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

The Company continues to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but the Company cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. There are other types of losses, such as from wars or the presence of mold at the Company s properties, for which the Company cannot obtain insurance at all or at a reasonable cost. With respect to such losses and losses from acts of terrorism, earthquakes or other catastrophic events, if the Company experiences a loss that is uninsured or that exceeds policy limits, the Company could lose the capital invested in the damaged properties, as well as the anticipated future revenues from those properties. Depending on the specific circumstances of each affected property, it is possible that the Company could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect the Company s business and financial condition and results of operations.

7. Minority Interests

Minority interests relate to the interest in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of March 31, 2008, the minority interest in the Operating Partnership consisted of 20,093,755 OP Units, 958,852 LTIP Units, 1,085,861 2008 OPP Units and 1,113,044 Series Two Preferred Units (or 1,460,688 OP Units on an as converted basis) held by parties other than the Company.

The minority interests in property partnerships consist of the outside equity interests in ventures that are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in these ventures that are not owned by the Company, totaling approximately $26.0 million at March 31, 2008, are included in Minority Interests on the accompanying Consolidated Balance Sheets.

During the three months ended March 31, 2008, 177,584 OP Units were presented by the holders for redemption and were redeemed by the Company in exchange for an equal number of shares of Common Stock. The aggregate book value of the OP Units that were redeemed, as measured for each OP Unit on the date of its redemption, was approximately $3.3 million. The difference between the aggregate book value and the purchase price of these OP Units was approximately $7.8 million, which increased the recorded value of the Company s net assets.

On February 5, 2008, the Company issued 1,085,861 2008 OPP Units. Prior to the measurement date, 2008 OPP Units will be entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special distributions. After the measurement date, the number of 2008 OPP Units, both vested and unvested, which 2008 OPP award recipients have earned based on the establishment of an outperformance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit. For a complete description of the terms of the 2008 OPP Units, see Note 11.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Preferred Units at March 31, 2008 consist solely of 1,113,044 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) an increasing rate, ranging from 5.00% to 7.00% per annum (7.00% for the three months ended March 31, 2008 and 2007) on a liquidation preference of $50.00 per unit, and are convertible into OP Units at a rate of $38.10 per Preferred Unit (1.312336 OP Units for each Preferred Unit). Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

On January 30, 2008, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit to holders of record as of the close of business on December 31, 2007. In addition, the Operating Partnership paid a special cash distribution on the OP Units and LTIP Units in the amount of $5.98 per unit to holders of record as of the close of business on December 31, 2007. Holders of Series Two Preferred Units will participate in the $5.98 per unit special cash distribution on an as-converted basis in connection with their regular May 2008 distribution payment as provided for in the Operating Partnership s partnership agreement. At December 31, 2007, the Company had accrued approximately $8.7 million related to the $5.98 per unit special cash distribution payable to holders of the Series Two Preferred Units.

On February 15, 2008, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.89239 per unit.

On March 17, 2008, Boston Properties, Inc., as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit and a distribution on the 2008 OPP Units in the amount of $0.068 per unit, in each case payable on April 30, 2008 to holders of record as of the close of business on March 31, 2008.

The Series Two Preferred Units may be converted into OP Units at the election of the holder thereof at any time. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. The value of the OP Units (not owned by the Company and including LTIP Units assuming that all conditions have been met for the conversion thereof) and Series Two Preferred Units had such units been redeemed at March 31, 2008 was approximately $1,938.3 million and $134.5 million, respectively, based on the closing price of the Company s common stock of $92.07 per share on March 31, 2008.

8. Stockholders Equity

As of March 31, 2008, the Company had 119,669,070 shares of Common Stock outstanding.

During the three months ended March 31, 2008, the Company issued 177,584 shares of its Common Stock in connection with the redemption of an equal number of OP Units.

On January 30, 2008, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on December 31, 2007. In addition, the Company paid a special cash dividend of $5.98 per share of Common Stock to shareholders of record as of the close of business on December 31, 2007.

Table of Contents

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 17, 2008, the Company s Board of Directors declared a dividend in the amount of $0.68 per share of Common Stock payable on April 30, 2008 to shareholders of record as of the close of business on March 31, 2008.

9. Held for Sale/Discontinued Operations

The Company applies the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

On January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million (See Note 3). At December 31, 2007, the Company had categorized the properties as Held for Sale in its Consolidated Balance Sheets. Due to the Company s continuing involvement through its ownership interest in the Value-Added Fund, these properties have not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations.

During the year ended December 31, 2007, the Company sold the following operating properties:

- Orbital Sciences Campus and Broad Run Business Park, Building E, comprised of three Class A office properties aggregating approximately 337,000 net rentable square feet and an office/technical property totaling approximately 127,000 net rentable square feet, respectively, located in Loudon County, Virginia;
- Democracy Center, a Class A office complex totaling approximately 685,000 net rentable square feet located in Bethesda, Maryland;
- Newport Office Park, a Class A office property totaling approximately 172,000 net rentable square feet located in Quincy, Massachusetts;
- Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts; and
- 5 Times Square, a Class A office property totaling approximately 1,102,000 net rentable square feet located in New York City.

Due to the Company s continuing involvement in the management, for a fee, of Democracy Center and 5 Times Square through agreements with the buyers, Democracy Center and 5 Times Square have not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. As a result, the gain on sale related to 5 Times Square has been reflected under the caption Gains on sales of real estate, net of minority interest, in the Consolidated Statements of Operations. The Company has presented the other properties listed above as discontinued operations in its Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007, as applicable.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gains on sales of real estate from discontinued operations (net of minority interest) for the three months ended March 31, 2008 and 2007 (in thousands):

	For the three months ended March 31, 2008	2007
Total revenue	$	$ 12,166
Operating expenses		7,766
Depreciation and amortization		1,314
Minority interest in Operating Partnership		460
Income from discontinued operations (net of minority interest)	$	$ 2,626
Realized gains on sales of real estate	$	$ 190,794
Minority interest in Operating Partnership		(28,946)
Realized gains on sales of real estate (net of minority interest)	$	$ 161,848

The Company s application of SFAS No. 144 results in the presentation of the net operating results of those qualifying properties sold or held for sale during the applicable periods as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

10. Earnings Per Share

Earnings per share (EPS) has been computed pursuant to the provisions of SFAS No. 128. The following table provides a reconciliation of both the net income and the number of common shares used in the computation of basic EPS, which is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. During 2004, the Company adopted EITF 03-6 Participating Securities and the Two-Class Method under FASB 128 (EITF 03-6), which provides further guidance on the definition of participating securities. Pursuant to EITF 03-6, the Operating Partnership s Series Two Preferred Units, which are reflected as Minority Interests in the Company s Consolidated Balance Sheets, are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. The terms of the Series Two Preferred Units enable the holders to obtain OP Units of the Operating Partnership, as well as Common Stock of the Company. Accordingly, for the reporting periods in which the Operating Partnership s net income is in excess of distributions paid on the OP Units, LTIP Units and Series Two Preferred Units, such income is allocated to the OP Units, LTIP Units and Series Two Preferred Units in proportion to their respective interests and the impact is included in the Company s consolidated basic and diluted earnings per share computation due to its holding of the Operating Partnership s securities. For the three months ended March 31, 2008 and 2007, approximately $0.1 million and $10.9 million, respectively, was allocated to the Series Two Preferred Units in excess of distributions paid during the reporting period and is included in the Company s computation of basic and diluted earnings per share. Because the 2008 OPP Units require the Company to outperform absolute and relative return thresholds, unless such thresholds have been met by the end of the applicable reporting period, the Company excludes all contingently issuable units from the diluted EPS calculation. Other potentially dilutive common shares, including stock options, restricted stock and other securities of the Operating Partnership that are exchangeable for the Company s Common Stock, and the related impact on earnings, are considered when calculating diluted EPS.

Table of Contents

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the three months ended March 31, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		