

BOSTON PROPERTIES INC
Form 10-Q
November 05, 2010
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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 September 30, 2010

.. **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)

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Delaware **04-2473675**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

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	140,105,879
(Class)	(Outstanding on November 1, 2010)

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2010

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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)**

	September 30, 2010	December 31, 2009
ASSETS		
Real estate, at cost	\$ 10,015,347	\$ 9,817,388
Construction in process	1,003,508	563,645
Land held for future development	754,120	718,525
Less: accumulated depreciation	(2,243,265)	(2,033,677)
Total real estate	9,529,710	9,065,881
Cash and cash equivalents	1,270,074	1,448,933
Cash held in escrows	300,771	21,867
Investments in securities	7,911	9,946
Tenant and other receivables (net of allowance for doubtful accounts of \$1,831 and \$4,125, respectively)	113,655	93,240
Related party note receivable	270,000	270,000
Accrued rental income (net of allowance of \$2,987 and \$2,645, respectively)	421,008	363,121
Deferred charges, net	300,882	294,395
Prepaid expenses and other assets	42,391	17,684
Investments in unconsolidated joint ventures	792,434	763,636
Total assets	\$ 13,048,836	\$ 12,348,703
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$ 2,813,338	\$ 2,643,301
Unsecured senior notes (net of discount of \$2,942 and \$2,611, respectively)	2,872,058	2,172,389
Unsecured exchangeable senior notes (net of discount of \$9,785 and \$15,529, respectively)	1,759,490	1,904,081
Unsecured line of credit		
Accounts payable and accrued expenses	199,534	220,089
Dividends and distributions payable	81,068	80,536
Accrued interest payable	84,689	76,058
Other liabilities	104,914	127,538
Total liabilities	7,915,091	7,223,992
Commitments and contingencies		
Noncontrolling interest:		
Redeemable preferred units of the Operating Partnership	55,652	55,652
Equity:		
Stockholders' equity attributable to Boston Properties, Inc.:		
Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding		

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Preferred stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 250,000,000 shares authorized, 140,137,321 and 138,958,910 issued and 140,058,421 and 138,880,010 outstanding in 2010 and 2009, respectively	1,401	1,389
Additional paid-in capital	4,424,711	4,373,679
Earnings in excess of dividends	58,051	95,433
Treasury common stock at cost, 78,900 shares in 2010 and 2009	(2,722)	(2,722)
Accumulated other comprehensive loss	(19,530)	(21,777)
Total stockholders' equity attributable to Boston Properties, Inc.	4,461,911	4,446,002
Noncontrolling interests:		
Common units of the Operating Partnership	609,454	617,386
Property partnerships	6,728	5,671
Total equity	5,078,093	5,069,059
Total liabilities and equity	\$ 13,048,836	\$ 12,348,703

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

Table of Contents**BOSTON PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
	(in thousands, except for per share amounts)			
Revenue				
Rental:				
Base rent	\$ 310,459	\$ 291,602	\$ 918,665	\$ 889,983
Recoveries from tenants	45,646	51,901	135,530	154,130
Parking and other	15,850	15,883	47,570	51,240
Total rental revenue	371,955	359,386	1,101,765	1,095,353
Hotel revenue	8,016	6,650	22,290	20,108
Development and management services	6,439	9,754	34,267	26,601
Interest and other	1,814	1,513	5,641	2,275
Total revenue	388,224	377,303	1,163,963	1,144,337
Expenses				
Real estate operating:				
Rental	128,041	129,020	376,310	377,611
Hotel	6,194	5,418	17,551	16,249
General and administrative	18,067	19,989	62,537	55,941
Acquisition costs	1,893		1,893	
Interest	97,103	77,090	285,887	234,653
Depreciation and amortization	81,133	78,181	245,608	242,556
Loss (gain) from suspension of development			(7,200)	27,766
Losses from early extinguishments of debt		16	8,221	510
Gains from investments in securities	(731)	(1,317)	(253)	(1,924)
Total expenses	331,700	308,397	990,554	953,362
Income before income from unconsolidated joint ventures, gains on sales of real estate and net income attributable to noncontrolling interests	56,524	68,906	173,409	190,975
Income from unconsolidated joint ventures	11,565	6,350	26,940	11,096
Gains on sales of real estate		2,394	2,734	9,682
Net income	68,089	77,650	203,083	211,753
Net income attributable to noncontrolling interests:				
Noncontrolling interests in property partnerships	(889)	(1,114)	(2,557)	(2,315)
Noncontrolling interest common units of the Operating Partnership	(8,712)	(9,662)	(25,841)	(27,776)
Noncontrolling interest in gains on sales of real estate common units of the Operating Partnership		(307)	(351)	(1,324)
Noncontrolling interest redeemable preferred units of the Operating Partnership	(820)	(772)	(2,548)	(2,734)
Net income attributable to Boston Properties, Inc.	\$ 57,668	\$ 65,795	\$ 171,786	\$ 177,604

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Basic earnings per common share attributable to Boston Properties, Inc.:								
Net income	\$	0.41	\$	0.47	\$	1.23	\$	1.38
Weighted average number of common shares outstanding					139,595	138,641	139,215	128,452
Diluted earnings per common share attributable to Boston Properties, Inc.:								
Net income	\$	0.41	\$	0.47	\$	1.23	\$	1.38
Weighted average number of common and common equivalent shares outstanding					140,193	139,225	139,874	128,835

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2010	2009	September 30, 2010	2009
	(in thousands)			
Net income	\$ 68,089	\$ 77,650	\$ 203,083	\$ 211,753
Other comprehensive income:				
Effective portion of interest rate contracts			421	
Amortization of interest rate contracts	716	726	2,157	2,178
Other comprehensive income	716	726	2,578	2,178
Comprehensive income	68,805	78,376	205,661	213,931
Comprehensive income attributable to noncontrolling interests	(10,512)	(11,948)	(31,628)	(34,447)
Comprehensive income attributable to Boston Properties, Inc.	\$ 58,293	\$ 66,428	\$ 174,033	\$ 179,484

The accompanying notes are an integral part of these financial statements

Table of Contents**BOSTON PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	For the nine months ended September 30,	
	2010	2009
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 203,083	\$ 211,753
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	245,608	242,556
Non-cash portion of interest expense	42,199	41,311
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes	(13,230)	
Non-cash compensation expense	26,725	20,136
Non-cash rental revenue		(3,600)
Losses from early extinguishments of debt	8,221	10
Gains from investments in securities	(253)	(1,924)
Loss (gain) from suspension of development	(7,200)	27,766
Income from unconsolidated joint ventures	(26,940)	(11,096)
Distributions of net cash flow from operations of unconsolidated joint ventures	9,189	7,876
Gains on sales of real estate	(2,734)	(9,682)
Change in assets and liabilities:		
Cash held in escrows	(1,404)	1,289
Tenant and other receivables, net	2,922	17,871
Accrued rental income, net	(57,887)	(36,998)
Prepaid expenses and other assets	(24,107)	(19,576)
Accounts payable and accrued expenses	(30,720)	8,794
Accrued interest payable	8,631	(17,596)
Other liabilities	(19,998)	(7,875)
Tenant leasing costs	(29,251)	(23,099)
Total adjustments	129,771	236,163
Net cash provided by operating activities	332,854	447,916
Cash flows from investing activities:		
Additions to real estate	(443,718)	(324,203)
Proceeds from mortgage loan placed in escrow	(267,500)	
Deposits on real estate	(10,000)	
Acquisition of note receivable	(22,500)	
Proceeds from redemptions of investments in securities	2,288	3,078
Capital contributions to unconsolidated joint ventures	(61,426)	(9,822)
Capital distributions from unconsolidated joint ventures	27,150	2,662
Net cash used in investing activities	(775,706)	(328,285)

The accompanying notes are an integral part of these financial statements

Table of Contents**BOSTON PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	For the nine months ended September 30,	
	2010	2009
	(in thousands)	
Cash flows from financing activities:		
Repayment of unsecured line of credit		(100,000)
Proceeds from mortgage notes payable	268,964	102,155
Repayments of mortgage notes payable	(301,531)	(119,268)
Proceeds from unsecured senior notes	699,237	
Repurchases of unsecured exchangeable senior notes	(172,294)	
Dividends and distributions	(243,253)	(276,432)
Net proceeds from equity transactions	21,933	846,827
Distributions to noncontrolling interests in property partnerships, net	(1,500)	(3,500)
Repayment of note payable		(25,000)
Deferred financing costs	(7,563)	(3,817)
Net cash provided by financing activities	263,993	420,965
Net increase (decrease) in cash and cash equivalents	(178,859)	540,596
Cash and cash equivalents, beginning of period	1,448,933	241,510
Cash and cash equivalents, end of period	\$ 1,270,074	\$ 782,106
Supplemental disclosures:		
Cash paid for interest	\$ 274,699	\$ 248,117
Interest capitalized	\$ 26,412	\$ 37,179
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	\$ 6,927	\$ 41,447
Mortgage note payable assumed in connection with the acquisition of real estate	\$ 202,604	\$
Note receivable converted to real estate	\$ 22,500	\$
Dividends and distributions declared but not paid	\$ 81,068	\$ 80,463
Conversions of noncontrolling interests to stockholders' equity	\$ 13,748	\$ 1,981
Issuance of restricted securities to employees and directors	\$ 19,222	\$ 22,964

The accompanying notes are an integral part of these financial statements

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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 September 30, 2010 owned an approximate 86.2% (85.9% at September 30, 2009) 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.

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 is obligated to 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 10).

At September 30, 2010, 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 or redeemed for cash at the election of the holder thereof or the Operating Partnership in accordance with the terms and conditions set forth in the applicable amendment to the partnership agreement (See Note 10).

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 September 30, 2010, the Company owned or had interests in a portfolio of 145 commercial real estate properties (the Properties) aggregating approximately 38.2 million net rentable square feet, including five properties under construction totaling approximately 2.0 million net rentable square feet. In addition, the Company has structured parking for approximately 38,651 vehicles containing approximately 12.8 million square feet. At September 30, 2010, the Properties consist of:

139 office properties, including 120 Class A office properties (including three properties under construction) and 19 Office/Technical properties;

one hotel;

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

three retail properties; and

two residential properties (both of which are under construction).

The Company owns or controls undeveloped land parcels totaling approximately 513.3 acres. In addition, the Company has a noncontrolling 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 accounts for its investment in the Value-Added Fund using the equity method of accounting. The Company's investments through the Value-Added Fund are not included in its portfolio information or any other portfolio level statistics. At September 30, 2010, the Value-Added Fund had investments in 26 buildings comprised of an office property in Chelmsford, Massachusetts and office complexes in San Carlos, California and Mountain View, California (See also Note 15).

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 (VIEs) 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, 2009.

For purposes of financial reporting disclosures, the Company estimates the fair value of mortgage notes payable, unsecured senior notes and unsecured exchangeable senior notes. The Company discounts the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt and unsecured notes based on current market rates for similar securities. In determining the current market rates, the

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Company adds its estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to its debt. Because the Company's valuations of its financial instruments are based on these types of estimates, the actual fair values of its financial instruments may differ materially if the Company's estimates do not prove to be accurate. The following table presents the aggregate carrying value of the Company's indebtedness and the Company's corresponding estimate of fair value as of September 30, 2010 (in thousands):

	Carrying Amount	Estimated Fair Value
Mortgage notes payable	\$ 2,813,338	\$ 2,912,476
Unsecured senior notes	2,872,058	3,316,303
Unsecured exchangeable senior notes	1,759,490(1)	1,973,879
Total	\$ 7,444,886	\$ 8,202,658

(1) Includes the unamortized net impact of the adjustment for the equity component allocation totaling approximately \$104.4 million (See Note 7).

3. Real Estate Activity During the Nine Months Ended September 30, 2010*Acquisitions*

On July 1, 2010, the Company acquired the mortgage loan collateralized by a land parcel zoned for residential use located in Reston, Virginia for approximately \$20.3 million. In connection with the acquisition of the loan, the Company entered into a forbearance agreement pursuant to which it obtained the fee interest in the land by deed in lieu of foreclosure.

On September 24, 2010, the Company acquired fee title to 510 Madison Avenue in New York City for a purchase price of approximately \$287.0 million. The Company also incurred approximately \$1.5 million of closing costs that were expensed in the three months ended September 30, 2010. Previously, on August 10, 2010, the Company had acquired the junior mezzanine loan that was secured by a pledge of a subordinate ownership interest in the property for a purchase price of approximately \$22.5 million. 510 Madison Avenue is a newly-constructed, approximately 347,000 square foot Class A office tower. The Company has not included any pro forma information as the property is under development. In connection with the acquisition, the Company assumed the mortgage loan totaling approximately \$202.6 million and at closing, the Company caused the assignment of the mortgage to a new lender and subsequently increased the amount borrowed to \$267.5 million. This amount is fully secured by cash deposits included within *Cash Held in Escrows* in the Company's Consolidated Balance Sheets. The mortgage financing bears interest at a variable rate equal to LIBOR plus 0.30% per annum and matures on February 24, 2012.

On September 27, 2010, the Company entered into an agreement to acquire Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately \$185.0 million. The purchase price consists of approximately \$41.1 million of cash and the assumption of approximately \$143.9 million of indebtedness. The debt being assumed is a securitized senior mortgage loan that bears interest at a fixed rate of 6.53% per annum and matures on June 11, 2012. The loan requires interest-only payments with a balloon payment due at maturity. The closing is scheduled to occur in the fourth quarter of 2010 and is subject to customary closing conditions and termination rights for transactions of this type. There can be no assurance that the acquisition will be completed on the terms or schedule currently contemplated, or at all. Bay Colony Corporate Center is an approximately 1,000,000 net rentable square foot, four-building Class A office park situated on a 58-acre site in Waltham, Massachusetts.

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Developments

On February 6, 2009, the Company announced that it was suspending construction on its 1,000,000 square foot office building at 250 West 55th Street in New York City. During the nine months ended September 30, 2009, the Company recognized costs aggregating approximately \$27.8 million related to the suspension of development, which amount included a \$20.0 million contractual amount due pursuant to a lease agreement. During December 2009, the Company completed the construction of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. On January 19, 2010, the Company paid \$12.8 million related to the termination of the lease agreement. As a result, the Company recognized approximately \$7.2 million of income during the nine months ended September 30, 2010.

On June 1, 2010, the Company placed in-service Weston Corporate Center, an approximately 356,000 net rentable square foot Class A office property located in Weston, Massachusetts. The property is 100% leased.

Dispositions

On April 14, 2008, the Company sold a parcel of land located in Washington, DC for approximately \$33.7 million. The Company had previously entered into a development management agreement with the buyer to develop a Class A office property on the parcel totaling approximately 165,000 net rentable square feet. Due to the Company's involvement in the construction of the project, the gain on sale was deferred and has been recognized over the project construction period generally based on the percentage of total project costs incurred to estimated total project costs. During the nine months ended September 30, 2010, the Company completed construction of the project and recognized the remaining gain on sale totaling approximately \$1.8 million. The Company has recognized a cumulative gain on sale of approximately \$23.4 million.

On May 5, 2010, the Company satisfied the requirements of its master lease agreement related to the 2006 sale of 280 Park Avenue in New York City, resulting in the recognition of the remaining deferred gain on sale of real estate totaling approximately \$1.0 million. Following the satisfaction of the master lease agreement, the buyer terminated the property management and leasing agreement entered into at the time of the sale, resulting in the recognition of non-cash deferred management fees totaling approximately \$12.2 million.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Investments in Unconsolidated Joint Ventures**

The investments in unconsolidated joint ventures consist of the following at September 30, 2010:

Entity	Properties	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(1)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	23.9%(2)
Wisconsin Place Retail LLC	Wisconsin Place Retail	5.0%
RBP Joint Venture LLC	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%(1)(4)
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(5)
767 Venture, LLC	The General Motors Building	60.0%
2 GCT Venture LLC	Two Grand Central Tower	60.0%
540 Madison Venture LLC	540 Madison Avenue	60.0%
125 West 55 th Street Venture LLC	125 West 55 th Street	60.0%
500 North Capitol LLC	500 North Capitol Street, NW	30.0%

- (1) The Company's economic ownership can increase based on the achievement of certain return thresholds.
- (2) 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, each of which owns a 33.33% interest in the entity owning the land and infrastructure of the project.
- (3) This property is not in operation and consists of assembled land.
- (4) 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 (See also Note 15).
- (5) Two of the three Annapolis Junction land parcels are undeveloped land.

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.

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

	September 30, 2010	December 31, 2009
	(in thousands)	
ASSETS		
Real estate and development in process, net	\$ 5,099,521	\$ 5,149,868
Other assets	806,595	760,001
Total assets	\$ 5,906,116	\$ 5,909,869
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	\$ 3,257,015	\$ 3,217,893
Other liabilities	986,624	1,071,904
Members /Partners equity	1,662,477	1,620,072
Total liabilities and members /partners equity	\$ 5,906,116	\$ 5,909,869
Company's share of equity	\$ 948,064	\$ 927,184
Basis differentials(1)	(155,630)	(163,548)
Carrying value of the Company's investments in unconsolidated joint ventures	\$ 792,434	\$ 763,636

- (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 assets and liabilities. Basis differentials occur from impairment of investments and 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 unconsolidated joint ventures are as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Total revenue(1)	\$ 155,126	\$ 148,885	\$ 457,217	\$ 445,827
Expenses				
Operating	45,546	41,977	130,083	122,614
Interest	59,120	58,975	176,705	173,356
Depreciation and amortization	50,548	57,160	164,763	175,648
Other	3,581		3,581	
Total expenses	158,795	158,112	475,132	471,618

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Net loss	\$ (3,669)	\$ (9,227)	\$ (17,915)	\$ (25,791)
Company's share of net loss	\$ (487)	\$ (4,174)	\$ (7,207)	\$ (12,619)
Impairment loss on investment				(7,357)
Basis differential	3,125	2,319	7,918	7,099
Elimination of inter-entity interest on partner loan	8,927	8,205	26,229	23,973
Income from unconsolidated joint ventures	\$ 11,565	\$ 6,350	\$ 26,940	\$ 11,096

- (1) Includes straight-line rent adjustments of \$5.9 million and \$6.7 million for the three months ended September 30, 2010 and 2009, respectively, and \$19.8 million and \$20.3 million for the nine months ended September 30, 2010 and 2009, respectively. Includes net above- and below-market rent adjustments of \$30.5 million and \$37.8 million for the three months ended September 30, 2010 and 2009, respectively, and \$97.6 million and \$115.1 million for the nine months ended September 30, 2010 and 2009, respectively.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On March 1, 2010, a joint venture in which the Company has a 60% interest refinanced at maturity its mortgage loan collateralized by 125 West 55th Street located in New York City. The mortgage loan totaling \$200.0 million bore interest at a fixed rate of 5.75% per annum. The new mortgage loan totaling \$207.0 million bears interest at a fixed rate of 6.09% per annum and was scheduled to mature on March 10, 2015. On July 23, 2010, the joint venture modified the mortgage loan by extending the maturity date of the loan to March 10, 2020. All other terms of the mortgage loan remain unchanged. In connection with the new mortgage loan, the Company has guaranteed the joint venture's obligation to fund an escrow related to certain lease rollover costs in lieu of an initial cash deposit for the full amount. The maximum funding obligation under the guarantee was \$21.3 million. At closing, the joint venture funded a \$10.0 million cash deposit into the escrow account and the remaining \$11.3 million will be further reduced with scheduled monthly deposits into the escrow account from operating cash flows. As of September 30, 2010, the maximum funding obligation under the guarantee was approximately \$8.6 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee. In addition, on February 25, 2010, the joint venture repaid outstanding mezzanine loans totaling \$63.5 million utilizing available cash and cash contributions from the joint venture's partners on a pro rata basis. The mezzanine loans bore interest at a weighted-average fixed rate of approximately 7.81% per annum and were scheduled to mature on March 1, 2010.

On April 1, 2010, the Company acquired a 30% interest in a joint venture entity that owns 500 North Capitol Street, NW located in Washington, DC. 500 North Capitol Street is an approximately 176,000 net rentable square foot office property that is fully-leased to a single tenant through March 2011. On April 1, 2010, the joint venture entity refinanced at maturity the mortgage loan collateralized by the property totaling approximately \$26.8 million. The new mortgage loan totaling \$22.0 million bears interest at a variable rate equal to the greater of (1) the prime rate, as defined in the loan agreement, or (2) 5.75% per annum. The loan currently bears interest at 5.75% per annum and matures on March 31, 2013. The Company's investment in the joint venture totaling approximately \$1.9 million was financed with cash contributions to the venture totaling approximately \$1.4 million and the issuance to the seller of 5,906 OP Units.

On April 9, 2010, a joint venture in which the Company has a 60% interest refinanced its mortgage loan collateralized by Two Grand Central Tower located in New York City. The previous mortgage loan totaling \$190.0 million bore interest at a fixed rate of 5.10% per annum and was scheduled to mature on July 11, 2010. The new mortgage loan totaling \$180.0 million bears interest at a fixed rate of 6.00% per annum and matures on April 10, 2015. In connection with the refinancing, the joint venture repaid \$10.0 million of the previous mortgage loan utilizing cash contributions from the joint venture's partners on a pro rata basis.

On April 16, 2010, a joint venture in which the Company has a 51% interest refinanced its mortgage loan collateralized by Metropolitan Square located in Washington, DC. The previous mortgage loan totaling approximately \$123.6 million bore interest at a fixed rate of 8.23% per annum and was scheduled to mature on May 1, 2010. The new mortgage loan totaling \$175.0 million bears interest at a fixed rate of 5.75% per annum and matures on May 5, 2020.

On June 15, 2010, a joint venture in which the Company has a 50% interest repaid the mortgage loan collateralized by land parcels at its site at Eighth Avenue and 46th Street in New York City utilizing cash contributions from the joint venture's partners on a pro rata basis. In addition, the joint venture completed an exchange of land parcels with a third party and received land parcels and development rights valued at approximately \$6.4 million in exchange for a land parcel valued at approximately \$5.4 million and cash of approximately \$1.0 million.

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On September 12, 2010, a joint venture in which the Company has a 50% interest exercised its right to extend the maturity date of its mortgage loan collateralized by Annapolis Junction located in Annapolis, Maryland. The mortgage loan totaling \$42.7 million now matures on September 12, 2011 and bears interest at a variable rate equal to LIBOR plus 1.00% per annum. The mortgage loan includes an additional one-year extension option, subject to certain conditions. All other terms of the mortgage loan remain unchanged.

On September 20, 2010, a joint venture in which the Company has a 50% interest refinanced its mortgage loan collateralized by Market Square North located in Washington, DC. The previous mortgage loan totaling approximately \$81.1 million bore interest at a fixed rate of 7.70% per annum and was scheduled to mature on December 19, 2010. The new mortgage loan totaling \$130.0 million bears interest at a fixed rate of 4.85% per annum and matures on October 1, 2020.

5. Mortgage Notes Payable

On June 15, 2010, the Company used available cash to repay the mortgage loan collateralized by its Eight Cambridge Center property located in Cambridge, Massachusetts totaling approximately \$22.6 million. The mortgage loan bore interest at a fixed rate of 7.73% per annum and was scheduled to mature on July 15, 2010. There was no prepayment penalty.

On July 1, 2010, the Company used available cash to repay the mortgage loans collateralized by its 202, 206 & 214 Carnegie Center properties located in Princeton, New Jersey totaling approximately \$55.8 million. The mortgage loans bore interest at a fixed rate of 8.13% per annum and were scheduled to mature on October 1, 2010. There was no prepayment penalty.

On August 1, 2010, the Company modified the mortgage loan collateralized by its Reservoir Place property located in Waltham, Massachusetts. The mortgage loan totaling \$50.0 million bore interest at a variable rate equal to LIBOR plus 3.85% per annum and matures on July 30, 2014. The modification reduced the interest rate to a variable rate equal to Eurodollar plus 2.20% per annum. All other terms of the mortgage loan remain unchanged.

On September 24, 2010, in connection with the acquisition of 510 Madison Avenue in New York City, the Company assumed the mortgage loan totaling approximately \$202.6 million and at closing caused the assignment of the mortgage to a new lender and subsequently increased the amount borrowed to \$267.5 million. This amount is fully secured by cash deposits included within Cash Held in Escrows in the Company's Consolidated Balance Sheets. The mortgage financing bears interest at a variable rate equal to LIBOR plus 0.30% per annum and matures on February 24, 2012.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Unsecured Senior Notes**

The following summarizes the unsecured senior notes outstanding as of September 30, 2010 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
10 Year Unsecured Senior Notes	6.250%	6.381%	\$ 750,000	January 15, 2013
10 Year Unsecured Senior Notes	6.250%	6.291%	175,000	January 15, 2013
12 Year Unsecured Senior Notes	5.625%	5.693%	300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
10 Year Unsecured Senior Notes	5.875%	5.967%	700,000	October 15, 2019
10 Year Unsecured Senior Notes	5.625%	5.708%	700,000	November 15, 2020
Total principal			2,875,000	
Net unamortized discount			(2,942)	
Total			\$ 2,872,058	

(1) Yield on issuance date including the effects of discounts on the notes.

(2) No principal amounts are due prior to maturity.

On April 19, 2010, the Company's Operating Partnership completed a public offering of \$700.0 million in aggregate principal amount of its 5.625% senior notes due 2020. The notes were priced at 99.891% of the principal amount to yield 5.708% to maturity. The aggregate net proceeds to the Operating Partnership, after deducting underwriter discounts and offering expenses, were approximately \$693.5 million. The notes mature on November 15, 2020, unless earlier redeemed. On April 7, 2010, in connection with the offering, the Company entered into two treasury lock agreements to fix the 10-year treasury rate at 3.873% per annum on notional amounts aggregating \$350.0 million. The Company subsequently cash-settled the treasury lock agreements and received approximately \$0.4 million, which amount will be recognized as a reduction to the Company's interest expense over the term of the notes.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Unsecured Exchangeable Senior Notes**

The following summarizes the unsecured exchangeable senior notes outstanding as of September 30, 2010 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Exchange Rate	Principal Amount	First Optional Redemption Date by Company	Maturity Date
3.625% Exchangeable Senior Notes	3.625%	4.037%	8.5051(2)	\$ 747,500	N/A	February 15, 2014
2.875% Exchangeable Senior Notes	2.875%	3.462%	7.0430(3)	676,194	February 20, 2012(4)	February 15, 2037
3.750% Exchangeable Senior Notes	3.750%	3.787%	10.0066(5)	450,000	May 18, 2013(6)	May 15, 2036
Total principal				1,873,694		
Net unamortized discount				(9,785)		
Adjustment for the equity component allocation, net of accumulated amortization				(104,419)		
Total				\$ 1,759,490		

- (1) Yield on issuance date including the effects of discounts on the notes but excluding the effects of the adjustment for the equity component allocation.
- (2) The initial exchange rate is 8.5051 shares per \$1,000 principal amount of the notes (or an initial exchange price of approximately \$117.58 per share of Boston Properties, Inc.'s common stock). In addition, the Company entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions were intended to increase the effective exchange price to the Company of the notes from \$117.58 to approximately \$137.17 per share (subject to adjustment), representing an overall effective premium of approximately 40% over the closing price on August 13, 2008 of \$97.98 per share of Boston Properties, Inc.'s common stock. The net cost of the capped call transactions was approximately \$44.4 million. As of September 30, 2010, the effective exchange price was \$136.13 per share.
- (3) In connection with the special distribution of \$5.98 per share of Boston Properties, Inc.'s common stock declared on December 17, 2007, the exchange rate was adjusted from 6.6090 to 7.0430 shares per \$1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately \$141.98 per share of Boston Properties, Inc.'s common stock.
- (4) Holders may require the Operating Partnership to repurchase the notes for cash on February 15, 2012, 2017, 2022, 2027 and 2032 and at any time prior to their maturity upon a fundamental change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurchase date.
- (5) In connection with the special distribution of \$5.98 per share of Boston Properties, Inc.'s common stock declared on December 17, 2007, the exchange rate was adjusted from 9.3900 to 10.0066 shares per \$1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately \$99.93 per share of Boston Properties, Inc.'s common stock.
- (6) Holders may require the Operating Partnership to repurchase the notes for cash on May 18, 2013 and May 15, 2016, 2021, 2026 and 2031 and at any time prior to their maturity upon a fundamental change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurchase date.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has separately accounted for the liability and equity components of the Operating Partnership's \$862.5 million of 2.875% exchangeable senior notes due 2037, \$450.0 million of 3.75% exchangeable senior notes due 2036 and \$747.5 million of 3.625% exchangeable senior notes due 2014 by allocating the initial proceeds from the sale between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Operating Partnership at such time. The Company measured the fair value of the debt components of the 2.875%, 3.75% and 3.625% exchangeable senior notes for the periods presented based on effective interest rates of 5.630%, 5.958% and 6.555%, respectively. The aggregate carrying amount of the debt component was approximately \$1.76 billion and \$1.90 billion (net of the adjustment for the equity component allocation (net of accumulated amortization) of approximately \$104.4 million and \$140.4 million) at September 30, 2010 and December 31, 2009, respectively. As a result, the Company attributed an aggregate of approximately \$230.3 million of the proceeds to the equity component of the notes, which represents the excess proceeds received over the fair value of the notes at the date of issuance. The Company also reclassified approximately \$1.0 million of deferred financing costs to Additional Paid-in Capital, which represented the costs attributable to the equity components of the notes. The equity component of the notes has been reflected within Additional Paid-in Capital in the Consolidated Balance Sheets. The carrying amount of the equity component was approximately \$229.3 million at September 30, 2010 and December 31, 2009. The resulting debt discount will be amortized over the period during which the debt is expected to be outstanding (i.e., through the first optional redemption dates or, in the case of the 2014 notes, the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to each debt security will increase in subsequent reporting periods through the first optional redemption date (or, in the case of the 2014 notes, the maturity date) as the debt accretes to its par value over the same period. The aggregate contractual interest expense was approximately \$17.1 million and \$18.6 million for the three months ended September 30, 2010 and 2009, respectively, and approximately \$52.3 million and \$55.8 million for the nine months ended September 30, 2010 and 2009, respectively. As a result of accounting for the exchangeable senior notes in a manner that reflects the Company's nonconvertible debt borrowing rate, the Company reported additional non-cash interest expense of approximately \$9.5 million and \$9.8 million for the three months ended September 30, 2010 and 2009, respectively, and approximately \$28.8 million and \$28.7 million for the nine months ended September 30, 2010 and 2009, respectively.

During the nine months ended September 30, 2010, the Company's Operating Partnership repurchased approximately \$186.3 million aggregate principal amount of its 2.875% exchangeable senior notes due 2037, which the holders may require the Operating Partnership to repurchase in February 2012, for approximately \$185.5 million. The repurchased notes had an aggregate carrying value of approximately \$177.3 million, resulting in the recognition of a loss on extinguishment of approximately \$8.2 million during the nine months ended September 30, 2010.

8. Unsecured Line of Credit

As of September 30, 2010, the Company's Operating Partnership had a \$1.0 billion unsecured revolving credit facility (the Unsecured Line of Credit). The Company's Unsecured Line of Credit bears interest at a variable interest rate equal to Eurodollar plus 0.475% per annum and was scheduled to mature on August 3, 2010, with a provision for a one-year extension at the option of the Company, subject to certain conditions. The Unsecured Line of Credit is a recourse obligation of the Company's Operating Partnership. Under the Unsecured Line of Credit, a facility fee equal to 0.125% per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in the Operating Partnership's unsecured debt ratings. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a negotiated LIBOR-based rate. There were no amounts outstanding on the Unsecured Line of

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit at September 30, 2010. Effective as of August 3, 2010, the maturity date under the Unsecured Line of Credit was extended to August 3, 2011. All other terms of the unsecured revolving credit facility remain unchanged.

The terms of the Unsecured Line of Credit require that the Company maintain a number of customary financial and other covenants on an ongoing basis, including: (1) a leverage ratio not to exceed 60%, however, the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an unsecured debt leverage ratio not to exceed 60%, however, the unsecured debt leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (5) a minimum net worth requirement, (6) an unsecured debt interest coverage ratio of at least 1.75 and (7) limitations on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties. At September 30, 2010, the Company was in compliance with each of these financial and other covenant requirements.

9. 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 \$16.5 million related to lender and development requirements.

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.

In connection with the assumption of the General Motors Building's secured loan by the Company's unconsolidated joint venture, 767 Venture, LLC, the Company guaranteed the unconsolidated joint venture's obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of September 30, 2010, the maximum funding obligation under the guarantee was approximately \$16.5 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee. In connection with the refinancing of the 125 West 55th Street property's secured loan by the Company's unconsolidated joint venture, 125 West 55th Street Venture LLC, the Company has guaranteed the unconsolidated joint venture's obligation to fund an escrow related to certain lease rollover costs in lieu of an initial cash deposit for the full amount. The maximum funding obligation under the guarantee was \$21.3 million. At closing, the joint venture funded a \$10.0 million cash deposit into the escrow account and the remaining \$11.3 million will be further reduced with scheduled monthly deposits into the escrow account from operating cash flows. As of September 30, 2010, the maximum funding obligation under the guarantee was approximately \$8.6 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee. From time to time, the Company (or the applicable joint venture) has also agreed to guarantee portions of the principal, interest or other amounts in connection with other unconsolidated joint venture borrowings. In addition to the financial guarantees referenced above, the Company has agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of its unconsolidated joint venture loans.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****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). Currently, the Company's property insurance program per occurrence limits are \$1.0 billion for its portfolio insurance program, including coverage for acts of terrorism certified under TRIA. The Company currently insures certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York (767 Fifth Avenue), in separate stand alone insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are \$1.625 billion, including coverage for acts of terrorism certified under TRIA, with \$1.375 billion of coverage for losses in excess of \$250 million being provided by NYXP, LLC, as a direct insurer. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage (NBCR Coverage) for acts of terrorism certified under TRIA, which is provided by IXP, LLC as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding the properties owned by the Company's Value-Added Fund and certain other properties owned in joint ventures with third parties or which we manage. 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 15%. 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.

IXP, LLC (IXP), a captive insurance company which is a wholly-owned subsidiary of the Company, 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 acts of terrorism certified under TRIA. NYXP, LLC (NYXP), a captive insurance company which is a wholly-owned subsidiary of the Company, acts as a direct insurer with respect to a portion of the Company's coverage for acts of terrorism certified under TRIA for 767 Fifth Avenue. Currently, NYXP only insures losses which exceed the program trigger under TRIA and NYXP reinsures with a third-party insurance company any coinsurance payable under TRIA. Insofar as the Company owns IXP and NYXP, it is responsible for their liquidity and capital resources, and the accounts of IXP and NYXP are part of the Company's consolidated financial statements. In particular, if a loss occurs which is

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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 and NYXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out and their insurance policies are maintained after the payout by the Federal Government. If the Company experiences a loss and IXP or NYXP are required to pay under their insurance policies, the Company would ultimately record the loss to the extent of the required payment. Therefore, insurance coverage provided by IXP and NYXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

The mortgages on the Company's properties typically contain requirements concerning the financial ratings of the insurers who provide policies covering the property. The Company provides the lenders on a regular basis with the identity of the insurance companies in the Company's insurance programs. The ratings of some of the Company's insurers are below the rating requirements in some of the Company's loan agreements and the lenders for these loans could attempt to claim an event of default has occurred under the loan. The Company believes it could obtain insurance with insurers which satisfy the rating requirements. Additionally, in the future, the Company's ability to obtain debt financing secured by individual properties, or the terms of such financing, may be adversely affected if lenders generally insist on ratings for insurers which are difficult to obtain or which result in a commercially unreasonable premium. There can be no assurance that a deficiency in the financial ratings of one or more of the Company's insurers will not have a material adverse effect on the Company.

The Company continues to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism and California earthquake risk 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.

10. Noncontrolling Interests

Noncontrolling interests relate to the interests in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of September 30, 2010, the noncontrolling interests consisted of 19,495,275 OP Units, 1,520,095 LTIP Units, 1,080,938 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.

Noncontrolling Interest Redeemable Preferred Units of the Operating Partnership

The Preferred Units at September 30, 2010 consisted 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) a rate ranging from 5.00% to 7.00% per annum 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 on the Series Two Preferred Units are payable quarterly and,

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unless the greater rate described in the next sentence applies, accrue at 6.0% per annum. If distributions on the number of OP Units into which the Series Two Preferred Units are convertible are greater than distributions calculated using the rates described in the preceding sentence for the applicable quarterly period, then the greater distributions are payable instead. The holders of Series Two Preferred Units have the right to require the Operating Partnership to redeem their units for cash at the redemption price of \$50.00 per unit on May 12, 2011, May 14, 2012, May 14, 2013 and May 12, 2014. The maximum number of units that may be required to be redeemed from all holders on each of these dates is 1,007,662, which is one-sixth of the number of Series Two Preferred Units that were originally issued. The holders also had the right to have their Series Two Preferred Units redeemed for cash on May 12, 2009 and May 12, 2010, although no holder exercised such right. The Company also has the right, under certain conditions and at certain times, to redeem Series Two Preferred Units for cash and to convert into OP Units any Series Two Preferred Units that are not redeemed when they are eligible for redemption.

On February 16, 2010, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.75616 per unit. On May 17, 2010, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.73151 per unit. On August 16, 2010, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.75616 per unit.

The following table reflects the activity of the noncontrolling interests redeemable preferred units of the Operating Partnership for the nine months ended September 30, 2010 and 2009 (in thousands):

Balance at January 1, 2010	\$ 55,652
Net income	2,548
Distributions	(2,548)
Balance at September 30, 2010	\$ 55,652
Balance at January 1, 2009	\$ 55,652
Net income	2,734
Distributions	(2,734)
Balance at September 30, 2009	\$ 55,652

Noncontrolling Interest Common Units of the Operating Partnership

During the nine months ended September 30, 2010, 473,469 OP Units were presented by the holders for redemption (including 94,541 OP Units issued upon conversion of LTIP Units) and were redeemed by the Company in exchange for an equal number of shares of Common Stock.

At September 30, 2010, the Company had outstanding 1,080,938 2008 OPP Units. Prior to the measurement date on February 5, 2011, 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, if any, 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.

On January 29, 2010, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.50 per unit and a distribution on the 2008 OPP Units in the amount of \$0.05 per unit to holders of

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

record as of the close of business on December 31, 2009. On April 30, 2010, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.50 per unit and a distribution on the 2008 OPP Units in the amount of \$0.05 per unit to holders of record as of the close of business on March 31, 2010. On July 30, 2010, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.50 per unit and a distribution on the 2008 OPP Units in the amount of \$0.05 per unit to holders of record as of the close of business on June 30, 2010. On September 16, 2010, Boston Properties, Inc., as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units in the amount of \$0.50 per unit and a distribution on the 2008 OPP Units in the amount of \$0.05 per unit, in each case payable on October 29, 2010 to holders of record as of the close of business on September 30, 2010.

The following table reflects the activity of the noncontrolling interests common units of the Operating Partnership for the nine months ended September 30, 2010 and 2009 (in thousands):

Balance at January 1, 2010	\$ 617,386
Net income	26,192
Distributions	(32,069)
Equity compensation	24,306
Reallocation of partnership interest	(26,361)
Balance at September 30, 2010	\$ 609,454
Balance at January 1, 2009	\$ 563,212
Net income	29,100
Distributions	(35,905)
Equity compensation	18,724
Reallocation of partnership interest	45,329
Balance at September 30, 2009	\$ 620,460

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. The Company may, in its sole discretion, elect to assume and satisfy the redemption obligation by paying either cash or issuing 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 (on an as converted basis) had all of such units been redeemed at September 30, 2010 was approximately \$1.75 billion and \$121.4 million, respectively, based on the closing price of the Company's common stock of \$83.12 per share on September 30, 2010.

Noncontrolling Interest Property Partnerships

The noncontrolling 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 \$6.7 million at September 30, 2010, are included in Noncontrolling Interests Property Partnerships on the accompanying Consolidated Balance Sheets.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table reflects the activity of the noncontrolling interests property partnerships for the nine months ended September 30, 2010 and 2009 (in thousands):

Balance at January 1, 2010	\$ 5,671
Net income	2,557
Distributions	(1,500)
Balance at September 30, 2010	\$ 6,728
Balance at January 1, 2009	\$ 6,900
Net income	2,315
Distributions	(3,500)
Balance at September 30, 2009	\$ 5,715

11. Stockholders Equity

As of September 30, 2010, the Company had 140,058,421 shares of Common Stock outstanding.

During the nine months ended September 30, 2010, the Company issued 618,957 shares of its Common Stock upon the exercise of options to purchase Common Stock by certain employees.

During the nine months ended September 30, 2010, the Company issued 473,469 shares of its Common Stock in connection with the redemption of an equal number of OP Units.

On January 29, 2010, the Company paid a dividend in the amount of \$0.50 per share of Common Stock to shareholders of record as of the close of business on December 31, 2009. On April 30, 2010, the Company paid a dividend in the amount of \$0.50 per share of Common Stock to shareholders of record as of the close of business on March 31, 2010. On July 30, 2010, the Company paid a dividend in the amount of \$0.50 per share of Common Stock to shareholders of record as of the close of business on June 30, 2010. On September 16, 2010, the Company's Board of Directors declared a dividend in the amount of \$0.50 per share of Common Stock payable on October 29, 2010 to shareholders of record as of the close of business on September 30, 2010.

12. Earnings Per Share

The following table provides a reconciliation of both the net income attributable to Boston Properties, Inc. and the number of common shares used in the computation of basic earnings per share (EPS), which is calculated by dividing net income attributable to Boston Properties, Inc. by the weighted-average number of common shares outstanding during the period. 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. As a result, the Series Two Preferred Units 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. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. As a result, unvested restricted common stock of the Company, LTIP Units and 2008 OPP Units 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. 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 the 2008 OPP Units from the diluted EPS

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

calculation. For the three and nine months ended September 30, 2010 and 2009, the absolute and relative return thresholds for the 2008 OPP Units were not met and as a result the 2008 OPP Units have been excluded 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.

	For the three months ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 57,668	139,595	\$ 0.41
Effect of Dilutive Securities:			
Stock Based Compensation		598	(0.00)
Diluted Earnings:			
Net income	\$ 57,668	140,193	\$ 0.41

	For the three months ended September 30, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 65,795	138,641	\$ 0.47
Effect of Dilutive Securities:			
Stock Based Compensation		584	(0.00)
Diluted Earnings:			
Net income	\$ 65,795	139,225	\$ 0.47

	For the nine months ended September 30, 2010		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 171,786	139,215	\$ 1.23
Effect of Dilutive Securities:			
Stock Based Compensation		659	(0.00)
Diluted Earnings:			
Net income	\$ 171,786	139,874	\$ 1.23

	For the nine months ended September 30, 2009		
	Income (Numerator)	Shares (Denominator)	Per Share Amount

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(in thousands, except for per share amounts)

Basic Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 177,604	128,452	\$ 1.38
Effect of Dilutive Securities:			
Stock Based Compensation		383	(0.00)
Diluted Earnings:			
Net income	\$ 177,604	128,835	\$ 1.38

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Stock Option and Incentive Plan**

During the nine months ended September 30, 2010, the Company issued 69,499 shares of restricted common stock and 252,597 LTIP Units to employees and directors under the 1997 Stock Option and Incentive Plan (the 1997 Plan). Employees and directors paid \$0.01 per share of restricted common stock and \$0.25 per LTIP Unit. The shares of restricted stock were valued at approximately \$4.5 million (\$65.31 per share weighted-average). The LTIP Units were valued at approximately \$15.3 million (\$60.49 per unit fair value weighted-average) using a Monte Carlo simulation method model. The per unit fair value of each LTIP Unit granted was estimated on the date of grant using the following assumptions: an expected life of 5.7 years, a risk-free interest rate of 2.60% and an expected price volatility of 36.0%. An LTIP Unit is generally the economic equivalent of a share of restricted stock in the Company. The aggregate value of the LTIP Units is included in noncontrolling interests in the Consolidated Balance Sheets. The restricted stock and LTIP Units granted to employees between January 1, 2004 and October 2006 vest over a five-year term. Grants of restricted stock and LTIP Units made in and after November 2006 vest in four equal annual installments. Restricted stock and LTIP Units are measured at fair value on the date of grant based on the number of shares or units granted, as adjusted for forfeitures, and the closing price of the Company's Common Stock on the date of grant as quoted on the New York Stock Exchange. Such value is recognized as an expense ratably over the corresponding employee service period. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Earnings in Excess of Dividends in the Consolidated Balance Sheets. Stock-based compensation expense associated with restricted stock, LTIP Units and 2008 OPP Units was approximately \$6.1 million and \$6.2 million for the three months ended September 30, 2010 and 2009, respectively, and approximately \$26.0 million and \$19.4 million for the nine months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010, stock-based compensation expense includes an aggregate of approximately \$5.8 million of remaining previously unvested stock-based compensation granted between 2006 and 2009 to Edward H. Linde, the Company's former Chief Executive Officer, which expense was accelerated as a result of his passing on January 10, 2010. At September 30, 2010, there was \$32.6 million of unrecognized compensation expense related to unvested restricted stock and LTIP Units and \$4.9 million of unrecognized compensation expense related to unvested 2008 OPP Units that is expected to be recognized over a weighted-average period of approximately 2.4 years. If upon the conclusion of the three-year measurement period in February 2011, the 2008 OPP Awards are not earned, and therefore the program is terminated, the Company will accelerate the then remaining unrecognized compensation expense totaling approximately \$4.3 million during the first quarter of 2011.

14. Segment Information

The Company's segments are based on the Company's method of internal reporting which classifies its operations by both geographic area and property type. The Company's segments by geographic area are Greater Boston, Greater Washington, DC, Midtown Manhattan, Greater San Francisco and New Jersey. Segments by property type include: Class A Office, Office/Technical and Hotels.

Asset information by segment is not reported because the Company does not use this measure to assess performance. Therefore, depreciation and amortization expense is not allocated among segments. Interest and other income, development and management services, general and administrative expenses, acquisition costs, interest expense, depreciation and amortization expense, loss (gain) from suspension of development, gains from investments in securities, losses from early extinguishments of debt, income from unconsolidated joint ventures, gains on sales of real estate and noncontrolling interests are not included in Net Operating Income as internal reporting addresses these items on a corporate level.

Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by accounting principles generally accepted in the United States of America, and it is not indicative of

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. All companies may not calculate Net Operating Income in the same manner. The Company considers Net Operating Income to be an appropriate supplemental measure to net income because it helps both investors and management to understand the core operations of the Company's properties.

Information by geographic area and property type:

Three months ended September 30, 2010 (dollars in thousands):

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	\$ 94,016	\$ 84,708	\$ 111,383	\$ 54,268	\$ 16,041	\$ 360,416
Office/Technical	7,627	3,912				11,539
Hotel	8,016					8,016
Total	109,659	88,620	111,383	54,268	16,041	379,971
% of Total	28.86%	23.32%	29.32%	14.28%	4.22%	100.00%
Real Estate Operating Expenses:						
Class A	36,082	24,243	35,908	20,317	8,081	124,631
Office/Technical	2,417	993				3,410
Hotel	6,194					6,194
Total	44,693	25,236	35,908	20,317	8,081	134,235
% of Total	33.29%	18.80%	26.75%	15.14%	6.02%	100.00%
Net Operating Income	\$ 64,966	\$ 63,384	\$ 75,475	\$ 33,951	\$ 7,960	\$ 245,736
% of Total	26.44%	25.79%	30.71%	13.82%	3.24%	100.00%

Three months ended September 30, 2009 (dollars in thousands):

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	\$ 92,091	\$ 82,336	\$ 103,656	\$ 54,047	\$ 15,633	\$ 347,763
Office/Technical	7,610	4,013				11,623
Hotel	6,650					6,650
Total	106,351	86,349	103,656	54,047	15,633	366,036
% of Total	29.05%	23.59%	28.32%	14.77%	4.27%	100.00%
Real Estate Operating Expenses:						
Class A	35,565	24,581	37,769	20,486	7,238	125,639
Office/Technical	2,338	1,043				3,381

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Hotel	5,418					5,418
Total	43,321	25,624	37,769	20,486	7,238	134,438
% of Total	32.23%	19.06%	28.09%	15.24%	5.38%	100.00%
Net Operating Income	\$ 63,030	\$ 60,725	\$ 65,887	\$ 33,561	\$ 8,395	\$ 231,598
% of Total	27.22%	26.22%	28.45%	14.49%	3.62%	100.00%

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Nine months ended September 30, 2010 (dollars in thousands):

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	\$ 273,702	\$ 251,126	\$ 332,301	\$ 160,899	\$ 49,046	\$ 1,067,074
Office/Technical	22,808	11,883				34,691
Hotel	22,290					22,290
Total	318,800	263,009	332,301	160,899	49,046	1,124,055
% of Total	28.36%	23.40%	29.56%	14.32%	4.36%	100.00%
Real Estate Operating Expenses:						
Class A	103,481	69,968	110,177	59,047	23,710	366,383
Office/Technical	6,790	3,137				9,927
Hotel	17,551					17,551
Total	127,822	73,105	110,177	59,047	23,710	393,861
% of Total	32.46%	18.56%	27.97%	14.99%	6.02%	100.00%
Net Operating Income	\$ 190,978	\$ 189,904	\$ 222,124	\$ 101,852	\$ 25,336	\$ 730,194
% of Total	26.15%	26.01%	30.42%	13.95%	3.47%	100.00%

Nine months ended September 30, 2009 (dollars in thousands):

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	\$ 274,510	\$ 238,147	\$ 335,370	\$ 165,161	\$ 46,936	\$ 1,060,124
Office/Technical	23,047	12,182				35,229
Hotel	20,108					20,108
Total	317,665	250,329	335,370	165,161	46,936	1,115,461
% of Total	28.48%	22.44%	30.06%	14.81%	4.21%	100.00%
Real Estate Operating Expenses:						
Class A	104,568	69,182	110,475	60,522	22,452	367,199
Office/Technical	7,178	3,234				10,412
Hotel	16,249					16,249
Total	127,995	72,416	110,475	60,522	22,452	393,860

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% of Total	32.50%	18.38%	28.05%	15.37%	5.70%	100.00%
Net Operating Income	\$ 189,670	\$ 177,913	\$ 224,895	\$ 104,639	\$ 24,484	\$ 721,601
% of Total	26.28%	24.66%	31.17%	14.50%	3.39%	100.00%

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a reconciliation of Net Operating Income to net income attributable to Boston Properties, Inc.:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net Operating Income	\$ 245,736	\$ 231,598	\$ 730,194	\$ 721,601
Add:				
Development and management services income	6,439	9,754	34,267	26,601
Interest and other income	1,814	1,513	5,641	2,275
Income from unconsolidated joint ventures	11,565	6,350	26,940	11,096
Gains on sales of real estate		2,394	2,734	9,682
Less:				
General and administrative expense	18,067	19,989	62,537	55,941
Acquisition costs	1,893		1,893	
Interest expense	97,103	77,090	285,887	234,653
Depreciation and amortization expense	81,133	78,181	245,608	242,556
Loss (gain) from suspension of development			(7,200)	27,766
Losses from early extinguishments of debt		16	8,221	510
Gains from investments in securities	(731)	(1,317)	(253)	(1,924)
Noncontrolling interest in property partnerships	889	1,114	2,557	2,315
Noncontrolling interest common units of the Operating Partnership	8,712	9,662	25,841	27,776
Noncontrolling interest in gains on sales of real estate common units of the Operating Partnership		307	351	1,324
Noncontrolling interest redeemable preferred units of the Operating Partnership	820	772	2,548	2,734
Net income attributable to Boston Properties, Inc.	\$ 57,668	\$ 65,795	\$ 171,786	\$ 177,604

15. Subsequent Events

On October 1, 2010, the Company modified its construction loan facility collateralized by its Atlantic Wharf development project in Boston, Massachusetts. The construction loan facility totaling \$215.0 million bears interest at a variable rate equal to LIBOR plus 3.00% per annum and matures on April 21, 2012 with two, one-year extension options, subject to certain conditions. The modification consisted of releasing from collateral the residential portion of the project and reducing the loan commitment to \$192.5 million. All other terms of the mortgage loan remain unchanged. The Company has not drawn any amounts under the facility.

On October 4, 2010, the Company entered into an agreement to acquire the John Hancock Tower and Garage in Boston, Massachusetts for an aggregate purchase price of approximately \$930.0 million. The purchase price consists of approximately \$289.5 million of cash and the assumption of approximately \$640.5 million of indebtedness. The debt being assumed is a securitized senior mortgage loan that bears interest at a fixed rate of 5.68% per annum and matures on January 6, 2017. The Company posted a cash deposit of \$50.0 million on October 4, 2010 to secure its obligations under the agreement, which amount will be credited to the Company at closing. The closing is expected to occur in the fourth quarter of 2010 and is subject to customary closing conditions and termination rights for transactions of this type, as well as certain post-closing indemnification and construction completion obligations of the seller described below that are secured by a guarantee issued by affiliates of the seller. There can be no assurance that the acquisition will be completed on the terms or schedule currently contemplated, or at all. Under the agreement, the seller has agreed to (1) fund the cost of and complete

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

certain capital projects and (2) fund the cost of certain tenant improvements, both of which are currently underway, totaling approximately \$46 million. The John Hancock Tower is a 62-story, approximately 1,700,000 net rentable square foot office tower located in Boston's Back Bay neighborhood. The garage is an eight-level, 2,013 space parking facility.

On October 8, 2010, Frederick J. Iseman resigned as a Director of the Company to devote more time to his other business interests. Mr. Iseman confirmed to the Company's Board of Directors that his resignation was not due to a disagreement with the Company on any matter relating to the Company's operations, policies or procedures.

On October 20, 2010, the Company closed a transaction with a financial institution (the HTC Investor) related to the historic rehabilitation of the residential component of the Company's Atlantic Wharf development in Boston, Massachusetts (the residential project). The residential project is expected to result in the development of approximately 75 to 90 units of residential rental apartments and approximately 10,000 to 20,000 square feet of retail space. Because, as a REIT, the Company may not take full advantage of available historic tax credits, the Company admitted the HTC Investor as a partner in the residential project. The HTC Investor has agreed to contribute an aggregate of approximately \$14 million to the project in three installments in 2010 and 2011, subject to the Company's achievement of certain conditions that include construction milestones and its compliance with the federal rehabilitation regulations. In exchange for its contribution, the HTC Investor will receive substantially all of the benefits derived from the tax credits.

On October 20, 2010, the Company used available cash to repay the mortgage loan collateralized by its South of Market property located in Reston, Virginia totaling approximately \$188.0 million. The mortgage loan bore interest at a variable rate equal to LIBOR plus 1.00% per annum and was scheduled to mature on November 21, 2010. There was no prepayment penalty.

On October 20, 2010, the Company used available cash to repay the mortgage loan collateralized by its Democracy Tower property located in Reston, Virginia totaling approximately \$59.8 million. The mortgage loan bore interest at a variable rate equal to LIBOR plus 1.75% per annum and was scheduled to mature on December 19, 2010. There was no prepayment penalty.

On October 21, 2010, the Company's Value-Added Fund conveyed the fee simple title to its One and Two Circle Star Way properties and paid \$3.8 million to the lender in satisfaction of its outstanding obligations under the existing mortgage loan. The mortgage loan had an outstanding principal amount of \$42.0 million, bore interest at a fixed rate of 6.57% per annum and was scheduled to mature on September 1, 2013. The Value-Added Fund had guaranteed the payment of (1) an aggregate of approximately \$5.0 million of unfunded tenant improvement costs and leasing commissions and (2) one year of real estate taxes. The Company had an effective ownership interest of 25% in the One and Two Circle Star Way properties.

On November 1, 2010, the Company used available cash to repay the mortgage loan collateralized by its 10 & 20 Burlington Mall Road property located in Burlington, Massachusetts and 91 Hartwell Avenue property located in Lexington, Massachusetts totaling approximately \$32.8 million. The mortgage loan bore interest at a fixed rate of 7.25% per annum and was scheduled to mature on October 1, 2011. The Company paid a prepayment penalty totaling approximately \$0.3 million associated with the repayment.

On November 1, 2010, the Company used available cash to repay the mortgage loan collateralized by its 1330 Connecticut Avenue property located in Washington, DC totaling approximately \$45.0 million. The mortgage loan bore interest at a fixed rate of 7.58% per annum and was scheduled to mature on February 26, 2011. There was no prepayment penalty.

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ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

As used herein, the terms we, us, our and the Company refer to Boston Properties, Inc., a Delaware corporation organized in 1997, individually or together with its subsidiaries, including Boston Properties Limited Partnership, a Delaware limited partnership, and our predecessors.

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based on beliefs and assumptions made by, and information currently available to, management. When used, the words anticipate, believe, estimate, expect, intend, may, might, plan, project, result, should, will and similar expressions which do not relate solely to historical matters to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected by the forward-looking statements. We caution you that while forward-looking statements reflect our good-faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

the continuing impact of the recent, severe economic recession (including the related high unemployment and constrained credit), which is having and may continue to have a negative effect on the following, among other things:

the fundamentals of our business, including overall market occupancy and rental rates;

the financial condition of our tenants, many of which are financial, legal and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties; and

the value of our real estate assets, which may limit our ability to dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis.

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

failure to manage effectively our growth and expansion into new markets and sub-markets or to integrate acquisitions and developments successfully;

the ability of our joint venture partners to satisfy their obligations;

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risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments, including the risk associated with interest rates impacting the cost and/or availability of financing;

risks associated with interest rate contracts and the effectiveness of such arrangements;

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risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

risks associated with actual or threatened terrorist attacks;

costs of compliance with the Americans with Disabilities Act and other similar laws;

potential liability for uninsured losses and environmental contamination;

risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended;

possible adverse changes in tax and environmental laws;

the impact of newly adopted accounting principles on our accounting policies and on period-to-period comparisons of financial results;

risks associated with possible state and local tax audits;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in our most recently filed Annual Report on Form 10-K, including those described under the caption Risk Factors.

The risks set forth above are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all risk factors, nor can it assess the impact of all risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our most recent Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for future periods and Current Reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.

Overview

We are a fully integrated self-administered and self-managed REIT and one of the largest owners and developers of Class A office properties in the United States. Our properties are concentrated in five markets Boston, midtown Manhattan, Washington, DC, San Francisco and Princeton, NJ. We generate revenue and cash primarily by leasing our Class A office space to our tenants. Factors we consider when we lease space include the creditworthiness of the tenant, the length of the lease, the rental rate to be paid, the costs of tenant improvements and other landlord concessions, current and anticipated operating costs and real estate taxes, our current and anticipated vacancy, current and anticipated future demand for office space and general economic factors. From time to time, we also generate cash through the sale of assets.

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Our core strategy has always been to operate in supply-constrained markets with high barriers to entry and to focus on executing long-term leases with financially strong tenants. Historically, this combination has tended to reduce our exposure in down cycles and we believe this is proving to be true once again. While the high rate of unemployment continues to negatively impact the fundamentals of our business, including overall market occupancy and rental rates, we are seeing signs of stability in all of our markets and gradual improvement in select submarkets.

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To be successful in the current leasing environment, we believe all aspects of the tenant-landlord relationship must be considered. In this regard, we believe that our understanding of tenants' short- and long-term space needs in the local markets, our relationships with local brokers, our reputation as a premier operator of Class A office properties and our ability to consummate transactions and fund necessary tenant improvements at our buildings provide a competitive advantage that is helping us during these challenging times. This is evidenced by the fact that during the first three quarters of 2010 we signed leases for more than 4.3 million square feet of space, which approximates our full-year average over the past five years. We continue to believe that general office market conditions are dependent on the impact of a recovery in the labor markets, and we are therefore not predicting significant rental rate growth or markedly fewer landlord concessions in the near-term.

As of September 30, 2010, leases representing approximately 2.2% and 8.2% of the space at our office properties expire during the remainder of 2010 and the full year of 2011, respectively. While rental rates in our markets appear to have stabilized, as leases expire, assuming no change in current market rental rates, we expect the rental rates we are likely to achieve on any new leases will be less than the rates currently being paid, thereby generally resulting in less revenue from the same space. For example, we estimate that the average rent currently paid by our office tenants for leases that expire during 2011 is approximately 9% greater than current market rates for comparable space. Because the individual labor and industry markets may recover at different paces, we may see varying degrees of strength or softness in our core markets. We expect tenants in our markets to continue to take advantage of the ability to upgrade to high-quality space like ours, particularly those who value our operational expertise and financial stability when making their leasing decisions.

Current market conditions, characterized by overleveraged real estate assets and property owners with insufficient capital resources, have provided opportunities for well capitalized companies and seasoned operators, such as us, to acquire high-quality assets. We continue to explore opportunities to acquire properties through outright property acquisitions, joint venture arrangements and the purchase of first mortgage, mezzanine or other debt. Over the past three months, we have either acquired, or signed agreements to acquire, three Class A office properties which we had been monitoring and evaluating for some time, including 510 Madison Avenue in New York City, The John Hancock Tower in Boston and Bay Colony Corporate Center in Waltham, Massachusetts. Each of these properties was for sale because of the aggressive capital structures used to develop or purchase them during the last economic cycle when high-leverage debt capital was easily obtainable. We believe these acquisitions present attractive opportunities for long-term value creation through the use of our operational, managerial and financial strength. The acquisition of the approximately 1,700,000 square foot iconic John Hancock Tower will strengthen our foothold in Boston's Back Bay office market by enabling us to control approximately 40% of the Class A tower space in the submarket. In addition, Bay Colony Corporate Center, an approximately 1,000,000 square foot, four-building office park which has undergone four ownership changes over the past few years, has experienced deteriorating occupancy and has recently received minimal capital investment. These factors present an attractive repositioning and leasing opportunity for a developer and manager such as us. Finally, 510 Madison Avenue is a newly constructed, approximately 347,000 square foot office building, which has been largely ignored by the leasing community due to its previous uncertain ownership status, and provides an opportunity to lease high-quality space in a supply-constrained market.

We also believe that other opportunities like these will present themselves over the foreseeable future. However, potential buyers have also become more aggressive about expectations for a recovery as evidenced by the high level of interest we are seeing in marketed assets. The combination of relatively low interest rates and the abundance of capital seeking high-quality assets may have a dampening effect on return expectations. While our management team is actively seeking opportunities, we will maintain our disciplined investment strategy, which focuses on high-quality assets in supply-constrained markets that have historically provided long-term value creation.

Given the favorable low interest rate environment and the opportunity to further enhance our capital position, we have also been active in the capital markets. Since January 1, 2010, five of our unconsolidated joint ventures have refinanced approximately \$714 million in secured financings, and in April our Operating

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Partnership completed a public offering of \$700 million aggregate principal amount of 5.625% senior notes due in 2020 that raised aggregate net proceeds of approximately \$694 million. After funding approximately \$310 million for the acquisition of 510 Madison Avenue, our cash position at September 30, 2010 was approximately \$1.3 billion. To date in the fourth quarter of 2010, we have repaid another approximately \$326 million of mortgage debt and we expect to fund an aggregate of approximately \$330 million to close the acquisitions of The John Hancock Tower and Bay Colony Corporate Center. After doing so, our remaining liquidity, including available cash of approximately \$600 million and full availability under our Operating Partnership's \$1.0 billion line of credit, is expected to provide sufficient capacity to fund the completion of our development pipeline and provide capital for future investments. We believe the quality of our assets and our strong balance sheet are attractive to lenders and equity investors' current investment selectivity and should enable us to continue to access multiple sources of capital.

We believe the successful lease-up and completion of our development pipeline will enhance our long-term return on equity and earnings growth as these developments are placed in-service through 2012. We are working toward the commencement of new developments in the Washington, DC market in 2011 where we have significant interest from tenants for office space, as well as a residential development in the urban core of Reston Town Center.

Transactions during the three months ended September 30, 2010 included the following:

On July 1, 2010, we used available cash to repay the mortgage loans collateralized by our 202, 206 & 214 Carnegie Center properties located in Princeton, New Jersey totaling approximately \$55.8 million. The mortgage loans bore interest at a fixed rate of 8.13% per annum and were scheduled to mature on October 1, 2010. There was no prepayment penalty.

On July 1, 2010, we acquired the mortgage loan collateralized by a land parcel zoned for residential use located in Reston, Virginia for approximately \$20.3 million. In connection with the acquisition of the loan, we entered into a forbearance agreement pursuant to which we obtained the fee interest in the land by deed in lieu of foreclosure.

On July 23, 2010, an unconsolidated joint venture in which we have a 60% interest modified its mortgage loan collateralized by 125 West 55th Street located in New York City. The mortgage loan totaling \$207.0 million bears interest at a fixed rate of 6.09% per annum and was scheduled to mature on March 10, 2015. The modification extended the maturity date of the loan to March 10, 2020. All other terms of the mortgage loan remain unchanged.

On August 1, 2010, we modified the mortgage loan collateralized by our Reservoir Place property located in Waltham, Massachusetts. The mortgage loan totaling \$50.0 million bore interest at a variable rate equal to LIBOR plus 3.85% per annum and matures on July 30, 2014. The modification reduced the interest rate to a variable rate equal to Eurodollar plus 2.20% per annum. All other terms of the mortgage loan remain unchanged.

Effective as of August 3, 2010, the maturity date under our Operating Partnership's \$1.0 billion unsecured revolving credit facility was extended to August 3, 2011. All other terms of the unsecured revolving credit facility remain unchanged.

On September 12, 2010, an unconsolidated joint venture in which we have a 50% interest exercised its right to extend the maturity date of its mortgage loan collateralized by Annapolis Junction located in Annapolis, Maryland. The mortgage loan totaling \$42.7 million now matures on September 12, 2011 and bears interest at a variable rate equal to LIBOR plus 1.00% per annum. The mortgage loan includes an additional one-year extension option, subject to certain conditions. All other terms of the mortgage loan remain unchanged.

On September 14, 2010, we executed an approximately 523,000 square foot 20-year lease with the Defense Intelligence Agency for our 12300 & 12310 Sunrise Valley Drive properties located in Reston,

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Virginia, which are currently 100% leased. We intend to redevelop the properties and expect to complete 12310 Sunrise Valley Drive during the first quarter of 2012 and 12300 Sunrise Valley Drive during the second quarter of 2013.

On September 20, 2010, an unconsolidated joint venture in which we have a 50% interest refinanced its mortgage loan collateralized by Market Square North located in Washington, DC. The previous mortgage loan totaling approximately \$81.1 million bore interest at a fixed rate of 7.70% per annum and was scheduled to mature on December 19, 2010. The new mortgage loan totaling \$130.0 million bears interest at a fixed rate of 4.85% per annum and matures on October 1, 2020. On October 22, 2010, the joint venture distributed to the partners excess loan proceeds totaling approximately \$40.8 million, of which our share was approximately \$20.4 million.

On September 24, 2010, we acquired fee title to 510 Madison Avenue in New York City for a purchase price of approximately \$287.0 million. We also incurred approximately \$1.5 million of closing costs that were expensed in the three months ended September 30, 2010. Previously, on August 10, 2010, we had acquired the junior mezzanine loan that was secured by a pledge of a subordinate ownership interest in the property for a purchase price of approximately \$22.5 million. 510 Madison Avenue is a newly-constructed, approximately 347,000 square foot Class A office tower located in the Plaza District of midtown Manhattan. During October 2010, we partially placed the property in-service. The property is approximately 1% leased. In connection with the acquisition, we assumed the mortgage loan totaling approximately \$202.6 million and at closing caused the assignment of the mortgage to a new lender and subsequently increased the amount borrowed to \$267.5 million. This amount is fully secured by cash deposits included within Cash Held in Escrows in our Consolidated Balance Sheets. The mortgage financing bears interest at a variable rate equal to LIBOR plus 0.30% per annum and matures on February 24, 2012.

Transactions completed subsequent to September 30, 2010:

On October 1, 2010, we modified our construction loan facility collateralized by our Atlantic Wharf development project in Boston, Massachusetts. The construction loan facility totaling \$215.0 million bears interest at a variable rate equal to LIBOR plus 3.00% per annum and matures on April 21, 2012 with two, one-year extension options, subject to certain conditions. The modification consisted of releasing from collateral the residential portion of the project and reducing the loan commitment to \$192.5 million. All other terms of the mortgage loan remain unchanged. We have not drawn any amounts under the facility.

On October 8, 2010, Fredrick J. Iseman resigned as our Director to devote more time to his other business interests. Mr. Iseman confirmed to our Board of Directors that his resignation was not due to a disagreement with us or any matter relating to our operations, policies or procedures.

On October 20, 2010, we closed a transaction with a financial institution (the HTC Investor) related to the historic rehabilitation of the residential component of our Atlantic Wharf development in Boston, Massachusetts (the residential project). The residential project is expected to result in the development of approximately 75 to 90 units of residential rental apartments and approximately 10,000 to 20,000 square feet of retail space. Because, as a REIT, we may not take full advantage of available historic tax credits, we admitted the HTC Investor as a partner in the residential project. The HTC Investor has agreed to contribute an aggregate of approximately \$14 million to the project in three installments in 2010 and 2011, subject to our achievement of certain conditions that include construction milestones and our compliance with the federal rehabilitation regulations. In exchange for its contribution, the HTC Investor will receive substantially all of the benefits derived from the tax credits.

On October 20, 2010, we used available cash to repay the mortgage loan collateralized by our South of Market property located in Reston, Virginia totaling approximately \$188.0 million. The mortgage loan bore interest at a variable rate equal to LIBOR plus 1.00% per annum and was scheduled to mature on November 21, 2010. There was no prepayment penalty.

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On October 20, 2010, we used available cash to repay the mortgage loan collateralized by our Democracy Tower property located in Reston, Virginia totaling approximately \$59.8 million. The mortgage loan bore interest at a variable rate equal to LIBOR plus 1.75% per annum and was scheduled to mature on December 19, 2010. There was no prepayment penalty.

On October 21, 2010, our Value-Added Fund conveyed the fee simple title to its One and Two Circle Star Way properties and paid \$3.8 million to the lender in satisfaction of its outstanding obligations under the existing mortgage loan. The mortgage loan had an outstanding principal amount of \$42.0 million, bore interest at a fixed rate of 6.57% per annum and was scheduled to mature on September 1, 2013. The Value-Added Fund had guaranteed the payment of (1) an aggregate of approximately \$5.0 million of unfunded tenant improvement costs and leasing commissions and (2) one year of real estate taxes. We had an effective ownership interest of 25% in the One and Two Circle Star Way properties.

On November 1, 2010, we used available cash to repay the mortgage loan collateralized by our 10 & 20 Burlington Mall Road property located in Burlington, Massachusetts and 91 Hartwell Avenue property located in Lexington, Massachusetts totaling approximately \$32.8 million. The mortgage loan bore interest at a fixed rate of 7.25% per annum and was scheduled to mature on October 1, 2011. The Company paid a prepayment penalty totaling approximately \$0.3 million associated with the repayment.

On November 1, 2010, we used available cash to repay the mortgage loan collateralized by our 1330 Connecticut Avenue property located in Washington, DC totaling approximately \$45.0 million. The mortgage loan bore interest at a fixed rate of 7.58% per annum and was scheduled to mature on February 26, 2011. There was no prepayment penalty.

Pending acquisitions:

On September 27, 2010, we entered into an agreement to acquire Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately \$185.0 million. The purchase price consists of approximately \$41.1 million of cash and the assumption of approximately \$143.9 million of indebtedness. The debt being assumed is a securitized senior mortgage loan that bears interest at a fixed rate of 6.53% per annum and matures on June 11, 2012. The loan requires interest-only payments with a balloon payment due at maturity. The closing is scheduled to occur in the fourth quarter of 2010 and is subject to customary closing conditions and termination rights for transactions of this type. There can be no assurance that the acquisition will be completed on the terms or schedule currently contemplated, or at all. Bay Colony Corporate Center is an approximately 1,000,000 net rentable square foot, four-building Class A office park situated on a 58-acre site in Waltham, Massachusetts, which is currently approximately 65% leased. Based on the current leasing profile, we expect rental revenue for 2011 to be approximately \$19.1 million, including straight-line rent of approximately \$0.4 million and net above- and below-market rent adjustments of approximately (\$0.7) million. See also *Critical Accounting Policies Revenue Recognition and Critical Accounting Policies Real Estate*. In addition, based on current budgets, we expect operating expenses for 2011 to be approximately \$11.2 million. There can be no assurance that actual performance will not differ materially from these estimates.

On October 4, 2010, we entered into an agreement to acquire the John Hancock Tower and Garage in Boston, Massachusetts for an aggregate purchase price of approximately \$930.0 million. The purchase price consists of approximately \$289.5 million of cash and the assumption of approximately \$640.5 million of indebtedness. The debt being assumed is a securitized senior mortgage loan that bears interest at a fixed rate of 5.68% per annum and matures on January 6, 2017. We posted a cash deposit of \$50.0 million on October 4, 2010 to secure our obligations under the agreement, which amount will be credited to us at closing. We expect to incur approximately \$2.0 million of acquisition-related costs in the fourth quarter of 2010. The closing is expected to occur in the fourth quarter of 2010 and is subject to customary closing conditions and termination rights for transactions of this type, as well as certain post-closing indemnification and construction completion obligations of the seller described below that are secured by a guarantee issued by affiliates of the seller. There can be no assurance that

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the acquisition will be completed on the terms or schedule currently contemplated, or at all. Under the agreement, the seller has agreed to (1) fund the cost and complete certain capital projects and (2) fund the cost of certain tenant improvements, both of which are currently underway, totaling approximately \$46 million. The John Hancock Tower is a 62-story, approximately 1,700,000 net rentable square foot office tower located in Boston's Back Bay neighborhood, which is currently approximately 95% leased. The garage is an eight-level, 2,013 space parking facility. Based on the current leasing profile, we expect rental revenue for 2011 to be approximately \$107.1 million, including straight-line rent of approximately \$12.6 million and net above- and below-market rent adjustments of approximately \$8.9 million. See also *Critical Accounting Policies Revenue Recognition and Critical Accounting Policies Real Estate* below. In addition, based on current budgets, we expect operating expenses for 2011 to be approximately \$45.0 million. There can be no assurance that actual performance will not differ materially from these estimates.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above- and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities, and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings as if vacant. We assess and consider fair value based on estimated cash flow projections that utilize discount and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions.

The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above- and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during

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hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Management reviews its long-lived assets used in operations for impairment following the end of each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such criteria are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, our established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value.

Guidance in Accounting Standards Codification (ASC) 360 Property Plant and Equipment (ASC 360) (formerly known as SFAS No. 144) requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that a sale of the property within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets, and the asset is written down to the lower of carrying value or fair market value.

Real estate is stated at depreciated cost. A variety of costs are incurred in the acquisition, development and leasing of properties. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Effective January 1, 2009, we are required to expense costs the acquirer incurs to effect a business combination such as legal, due diligence and other closing related costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involves a degree of judgment. Our capitalization policy on development properties is guided by guidance in ASC 835-20 Capitalization of Interest and ASC 970 Real Estate General (formerly known as SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Projects). The costs of land and buildings under development include specifically identifiable costs.

The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed, (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction or (3) if activities necessary for the development of the property have been suspended.

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Except for ownership interests in VIEs for which we are the primary beneficiary, we account for our investments in joint ventures under the equity method of accounting because we exercise significant influence over, but do not control, these entities. Our judgment with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a VIE involves the consideration of various factors including the form of our ownership interest, our representation in the entity's governance, the size of our investment (including loans), estimates of future cash flows, our ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace us as manager and/or liquidate the venture, if applicable. Our assessment of our influence or control over an entity affects the presentation of these investments in our Consolidated Financial Statements.

These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses, however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in VIEs, we consolidate those in which we are the primary beneficiary. Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or circumstances change indicating that a decline in the fair value below the carrying values have occurred and such decline is other-than-temporary. The ultimate realization of our investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in an unconsolidated joint venture is other than temporary.

To the extent that we contribute assets to a joint venture, our investment in the joint venture is recorded at our cost basis in the assets that were contributed to the joint venture. To the extent that our cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net income of the joint venture. We will recognize gains on the contribution of real estate to joint ventures, relating solely to the outside partner's interest, to the extent the economic substance of the transaction is a sale.

The combined summarized financial information of the unconsolidated joint ventures is disclosed in Note 4 to the Consolidated Financial Statements.

Revenue Recognition

Contractual rental revenue is reported on a straight-line basis over the terms of our respective leases. We recognize rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases. Accrued rental income as reported on the Consolidated Balance Sheets represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

For the three and nine months ended September 30, 2010, we recorded approximately \$0.6 million and \$1.9 million, respectively of rental revenue representing the net adjustments of rents from above- and below-market leases. For the three and nine months ended September 30, 2010, the impact of the straight-line rent adjustment increased rental revenue by approximately \$19.8 million and \$67.9 million, respectively. Those amounts exclude the adjustment of rents from above- and below-market leases and straight-line income from unconsolidated joint ventures, which are disclosed in Note 4 to the Consolidated Financial Statements.

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Our leasing strategy is generally to secure creditworthy tenants that meet our underwriting guidelines. Furthermore, following the initiation of a lease, we continue to actively monitor the tenant's creditworthiness to ensure that all tenant related assets are recorded at their realizable value.

When assessing tenant credit quality, we:

review relevant financial information, including:

financial ratios;

net worth;

revenue;

cash flows;

leverage; and

liquidity;

evaluate the depth and experience of the tenant's management team; and

assess the strength/growth of the tenant's industry.

As a result of the underwriting process, tenants are then categorized into one of three categories:

(1) low risk tenants;

(2) the tenant's credit is such that we require collateral, in which case we:

require a security deposit; and/or

reduce upfront tenant improvement investments; or

(3) the tenant's credit is below our acceptable parameters.

We consistently monitor the credit quality of our tenant base. We provide an allowance for doubtful accounts arising from estimated losses that could result from the tenant's inability to make required current rent payments and an allowance against accrued rental income for future potential losses that we deem to be unrecoverable over the term of the lease.

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Tenant receivables are assigned a credit rating of 1 through 4. A rating of 1 represents the highest possible rating and no allowance is recorded. A rating of 4 represents the lowest credit rating, in which case we record a full reserve against the receivable balance. Among the factors considered in determining the credit rating include:

payment history;

credit status and change in status (credit ratings for public companies are used as a primary metric);

change in tenant space needs (i.e., expansion/downsize);

tenant financial performance;

economic conditions in a specific geographic region; and

industry specific credit considerations.

If our estimates of collectability differ from the cash received, the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases, including unconsolidated joint ventures, was approximately 7.1 years as of September 30, 2010. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants' risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

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Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with guidance in ASC 605-45 Principal Agent Considerations (ASC 605-45) (formerly known as Emerging Issues Task Force, or EITF, Issue 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent, or Issue 99-19). ASC 605-45 requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have credit risk. We also receive reimbursement of payroll and payroll related costs from third parties which we reflect on a net basis.

Our hotel revenues are derived from room rentals and other sources such as charges to guests for long-distance telephone service, fax machine use, movie and vending commissions, meeting and banquet room revenue and laundry services. Hotel revenues are recognized as earned.

We receive management and development fees from third parties. Management fees are recorded and earned based on a percentage of collected rents at the properties under management, and not on a straight-line basis, because such fees are contingent upon the collection of rents. We review each development agreement and record development fees as earned depending on the risk associated with each project. Profit on development fees earned from joint venture projects is recognized as revenue to the extent of the third-party partners' ownership interest.

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 360-20 Real Estate Sales (ASC 360-20) (formerly known as SFAS No. 66, Accounting for Sales of Real Estate). The specific timing of the sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Depreciation and Amortization

We compute depreciation and amortization on our properties using the straight-line method based on estimated useful asset lives. We allocate the acquisition cost of real estate to land, building, tenant improvements, acquired above- and below-market leases, origination costs and acquired in-place leases based on an assessment of their fair value and depreciate or amortize these assets over their useful lives. The amortization of acquired above- and below-market leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

For purposes of disclosure, we calculate the fair value of our mortgage notes payable and unsecured senior notes. We discount the spread between the future contractual interest payments and hypothetical future interest payments on our mortgage debt and unsecured notes based on a current market rate. In determining the current market rate, we add our estimate of a market spread to the quoted yields on federal government treasury securities with similar maturity dates to our own debt. Because our valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate.

Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the

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derivative instruments are reported in the Consolidated Statements of Operations as a component of net income or as a component of comprehensive income and as a component of equity on the Consolidated Balance Sheets. While management believes its judgments are reasonable, a change in a derivative's effectiveness as a hedge could materially affect expenses, net income and equity.

Results of Operations

The following discussion is based on our Consolidated Financial Statements for the three and nine months ended September 30, 2010 and 2009.

At September 30, 2010 and September 30, 2009, we owned or had interests in a portfolio of 145 and 146 properties, respectively (in each case, the Total Property Portfolio). As a result of changes within our Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from period-to-period. Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio are necessarily meaningful. Therefore, the comparison of operating results for the three and nine months ended September 30, 2010 and 2009 show separately the changes attributable to the properties that were owned by us throughout each period compared (the Same Property Portfolio) and the changes attributable to the properties included in the Placed In-Service Portfolio.

In our analysis of operating results, particularly to make comparisons of net operating income between periods meaningful, it is important to provide information for properties that were in-service and owned by us throughout each period presented. We refer to properties acquired or placed in-service prior to the beginning of the earliest period presented and owned by us through the end of the latest period presented as our Same Property Portfolio. The Same Property Portfolio therefore excludes properties placed in-service or acquired after the beginning of the earliest period presented or disposed of prior to the end of the latest period presented.

Net operating income, or NOI, is a non-GAAP financial measure equal to net income attributable to Boston Properties, Inc., the most directly comparable GAAP financial measure, plus income attributable to noncontrolling interests, gains from investments in securities, losses from early extinguishments of debt, loss (gain) from suspension of development, depreciation and amortization, interest expense, acquisition costs, general and administrative expense, less gains on sales of real estate, income from unconsolidated joint ventures, interest and other income and development and management services revenue. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspective not immediately apparent from net income attributable to Boston Properties, Inc. NOI excludes certain components from net income attributable to Boston Properties, Inc. In order to provide results that are more closely related to a property's results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level as opposed to the property level. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. NOI presented by us may not be comparable to NOI reported by other REITs that define NOI differently. We believe that in order to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income attributable to Boston Properties, Inc. as presented in our Consolidated Financial Statements. NOI should not be considered as an alternative to net income attributable to Boston Properties, Inc. as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. For a reconciliation of NOI to net income attributable to Boston Properties, Inc., see Note 14 to the Consolidated Financial Statements.

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Comparison of the nine months ended September 30, 2010 to the nine months ended September 30, 2009.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 134 properties totaling approximately 34.8 million net rentable square feet of space. The Same Property Portfolio includes properties acquired or placed in-service on or prior to January 1, 2009 and owned through September 30, 2010. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2009 or disposed of on or prior to September 30, 2010. There were no properties that were sold or repositioned after January 1, 2009. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months ended September 30, 2010 and 2009 with respect to the properties which were placed in-service.

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	Same Property Portfolio				Placed In-Service Portfolio			Total Property Portfolio			
	2010	2009	Increase/ (Decrease)	% Change	2010	2009	Increase/ (Decrease)	2010	2009	Increase/ (Decrease)	% Change
Rental Revenue:											
Rental Revenue	\$ 1,062,003	\$ 1,074,359	\$ (12,356)	(1.15)%	\$ 32,772	\$ 7,479	\$ 25,293	\$ 1,094,775	\$ 1,081,838	\$ 12,937	1.20%
Termination Income	6,990	13,515	(6,525)	(48.28)%				6,990	13,515	(6,525)	(48.28)%
Total Rental Revenue	1,068,993	1,087,874	(18,881)	(1.74)%	32,772	7,479	25,293	1,101,765	1,095,353	6,412	0.59%
Real Estate Operating Expenses											
	369,344	375,431	(6,087)	&							