BOSTON PROPERTIES INC
Form 10-Q
November 08, 2011
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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, 2011

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

Commission File Number: 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**04-2473675**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 x No ¨

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

Large accelerated filer x	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 x

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

Common Stock, par value $.01 per share	**147,629,307**
(Class)	**(Outstanding on November 1, 2011)**

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2011

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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, 2011	December 31, 2010
ASSETS		
Real estate, at cost	$ 12,031,660	$ 10,933,977
Construction in process	899,302	1,073,402
Land held for future development	266,834	757,556
Less: accumulated depreciation	(2,558,620)	(2,323,818)
Total real estate	10,639,176	10,441,117
Cash and cash equivalents	1,063,024	478,948
Cash held in escrows	36,759	308,031
Investments in securities	9,312	8,732
Tenant and other receivables (net of allowance for doubtful accounts of $1,650 and $2,081, respectively)	47,554	60,813
Related party notes receivable	276,375	270,000
Interest receivable from related party note receivable	84,782	69,005
Accrued rental income (net of allowance of $2,356 and $3,116, respectively)	508,838	442,683
Deferred charges, net	441,700	436,019
Prepaid expenses and other assets	102,812	65,663
Investments in unconsolidated joint ventures	770,466	767,252
Total assets	$ 13,980,798	$ 13,348,263
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 3,179,034	$ 3,047,586
Unsecured senior notes (net of discount of $8,014 and $8,402, respectively)	3,016,986	3,016,598
Unsecured exchangeable senior notes (net of discount of $4,699 and $8,249, respectively)	1,754,343	1,721,817
Unsecured line of credit		
Accounts payable and accrued expenses	172,928	186,059
Dividends and distributions payable	83,584	81,031
Accrued interest payable	89,555	62,327
Other liabilities	244,555	213,000
Total liabilities	8,540,985	8,328,418
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		
Preferred stock, $.01 par value, 50,000,000 shares authorized, none issued or outstanding		
	1,476	1,402

Common stock, $.01 par value, 250,000,000 shares authorized, 147,706,147 and 140,278,005 issued and 147,627,247 and 140,199,105 outstanding at September 30, 2011 and December 31, 2010, respectively		
Additional paid-in capital	4,916,440	4,417,162
Dividends in excess of earnings	(72,941)	(24,763)
Treasury common stock at cost, 78,900 shares at September 30, 2011 and December 31, 2010	(2,722)	(2,722)
Accumulated other comprehensive loss	(16,717)	(18,436)
Total stockholders equity attributable to Boston Properties, Inc.	4,825,536	4,372,643
Noncontrolling interests:		
Common units of the Operating Partnership	559,621	592,164
Property partnerships	(996)	(614)
Total equity	5,384,161	4,964,193
Total liabilities and equity	$ 13,980,798	$ 13,348,263

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	$ 360,595	$ 310,459	$ 1,048,604	$ 918,665
Recoveries from tenants	53,899	45,646	148,669	135,530
Parking and other	21,694	15,850	61,863	47,570
Total rental revenue	436,188	371,955	1,259,136	1,101,765
Hotel revenue	8,045	8,016	22,897	22,290
Development and management services	8,180	6,439	24,706	34,267
Total revenue	452,413	386,410	1,306,739	1,158,322
Expenses				
Operating				
Rental	154,985	128,041	439,831	376,310
Hotel	6,032	6,194	18,052	17,551
General and administrative	17,340	18,067	62,052	62,537
Acquisition costs	51	1,893	136	1,893
Suspension of development				(7,200)
Depreciation and amortization	109,495	81,133	330,003	245,608
Total expenses	287,903	235,328	850,074	696,699
Operating income	164,510	151,082	456,665	461,623
Other income (expense)				
Income from unconsolidated joint ventures	11,326	11,565	28,184	26,940
Interest and other income	1,252	1,814	4,179	5,641
Gains (losses) from investments in securities	(860)	731	(481)	253
Interest expense	(95,777)	(97,103)	(290,164)	(285,887)
Losses from early extinguishments of debt				(8,221)
Income from continuing operations	80,451	68,089	198,383	200,349
Gain on sale of real estate				2,734
Net income	80,451	68,089	198,383	203,083
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(86)	(889)	(1,118)	(2,557)
Noncontrolling interest redeemable preferred units of the Operating Partnership	(832)	(820)	(2,497)	(2,548)
Noncontrolling interest common units of the Operating Partnership	(8,991)	(8,712)	(23,409)	(25,841)
Noncontrolling interest in gain on sale of real estate common units of the Operating Partnership				(351)
Net income attributable to Boston Properties, Inc.	$ 70,542	$ 57,668	$ 171,359	$ 171,786

Basic earnings per common share attributable to Boston Properties, Inc.:				
Net income	$ 0.48	$ 0.41	$ 1.18	$ 1.23
Weighted average number of common shares outstanding	147,006	139,595	145,006	139,215
Diluted earnings per common share attributable to Boston Properties, Inc.:				
Net income	$ 0.48	$ 0.41	$ 1.18	$ 1.23
Weighted average number of common and common equivalent shares outstanding	147,622	140,193	145,625	139,874

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 September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
Net income	$ 80,451	$ 68,089	$ 198,383	$ 203,083
Other comprehensive income:				
Effective portion of interest rate contracts				421
Amortization of interest rate contracts	649	716	1,946	2,157
Other comprehensive income	649	716	1,946	2,578
Comprehensive income	81,100	68,805	200,329	205,661
Net income attributable to noncontrolling interests	(9,909)	(10,421)	(27,024)	(31,297)
Other comprehensive income attributable to noncontrolling interests	(72)	(91)	(227)	(331)
Comprehensive income attributable to Boston Properties, Inc.	$ 71,119	$ 58,293	$ 173,078	$ 174,033

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited and in thousands)

	Common Stock		Additional	Earnings (Dividends) in Excess of	Treasury	Accumulated Other		
	Shares	Amount	Paid-in Capital	Dividends (Earnings)	Stock, at cost	Comprehensive Loss	Noncontrolling Interests	Total
Equity, December 31, 2010	140,199	$ 1,402	$ 4,417,162	$ (24,763)	$ (2,722)	$ (18,436)	$ 591,550	$ 4,964,193
Conversion of operating partnership units to Common Stock	2,443	24	71,157				(71,181)	
Reallocation of noncontrolling interest			(26,755)				26,755	
Allocated net income for the year				171,359			24,527	195,886
Dividends/distributions declared				(219,537)			(29,120)	(248,657)
Sale of common stock, net of offering costs	4,660	47	438,990					439,037
Shares issued pursuant to stock purchase plan	7		620					620
Net activity from stock option and incentive plan	318	3	15,266				17,367	32,636
Distributions to noncontrolling interests in property partnerships							(1,500)	(1,500)
Amortization of interest rate contracts						1,719	227	1,946
Equity, September 30, 2011	147,627	$ 1,476	$ 4,916,440	$ (72,941)	$ (2,722)	$ (16,717)	$ 558,625	$ 5,384,161
Equity, December 31, 2009	138,880	$ 1,389	$ 4,373,679	$ 95,433	$ (2,722)	$ (21,777)	$ 623,057	$ 5,069,059
Conversion of operating partnership units to Common Stock	473	5	13,743				(13,748)	
Reallocation of noncontrolling interest			12,944				(12,944)	
Allocated net income for the year				171,786			28,749	200,535
Dividends/distributions declared				(209,168)			(32,069)	(241,237)
Shares issued pursuant to stock purchase plan	9		630					630
Net activity from stock option and incentive plan	696	7	23,715				24,306	48,028
Distributions to noncontrolling interests in property partnerships							(1,500)	(1,500)
Amortization of interest rate contracts						2,247	331	2,578
Equity, September 30, 2010	140,058	$ 1,401	$ 4,424,711	$ 58,051	$ (2,722)	$ (19,530)	$ 616,182	$ 5,078,093

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2011	2010
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 198,383	$ 203,083
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	330,003	245,608
Non-cash compensation expense	23,702	26,725
Income from unconsolidated joint ventures	(28,184)	(26,940)
Distributions of net cash flow from operations of unconsolidated joint ventures	27,222	9,189
Losses (gains) from investments in securities	481	(253)
Non-cash portion of interest expense	41,016	42,199
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes		(13,230)
Losses from early extinguishments of debt		8,221
Suspension of development		(7,200)
Gain on sale of real estate		(2,734)
Change in assets and liabilities:		
Cash held in escrows	(6,228)	(1,404)
Tenant and other receivables, net	13,097	2,922
Accrued rental income, net	(66,155)	(57,887)
Prepaid expenses and other assets	(66,597)	(24,107)
Accounts payable and accrued expenses	5,341	(30,720)
Accrued interest payable	27,228	8,631
Other liabilities	(15,664)	(19,998)
Tenant leasing costs	(40,786)	(29,251)
Total adjustments	244,476	129,771
Net cash provided by operating activities	442,859	332,854
Cash flows from investing activities:		
Acquisitions of real estate	(41,100)	(103,785)
Construction in progress	(205,580)	(233,814)
Building and other capital improvements	(29,406)	(14,377)
Tenant improvements	(50,400)	(91,742)
Proceeds from land transaction	43,887	
Proceeds from mortgage loan released from (placed in) escrow	267,500	(267,500)
Deposit on real estate released from (placed in) escrow	10,000	(10,000)
Acquisition of note receivable		(22,500)
Issuance of note receivable	(6,375)	
Capital contributions to unconsolidated joint ventures	(17,867)	(61,426)
Capital distributions from unconsolidated joint ventures		27,150
Investments in securities, net	(1,061)	2,288
Net cash used in investing activities	(30,402)	(775,706)

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the nine months ended September 30, 2011	2010
	(in thousands)	
Cash flows from financing activities:		
Proceeds from mortgage notes payable	1,178,306	268,964
Repayments of mortgage notes payable	(1,196,074)	(301,531)
Proceeds from unsecured senior notes		699,237
Repurchases of unsecured exchangeable senior notes		(172,294)
Deposit on mortgage loan financing		
Deferred financing costs	(9,103)	(7,563)
Net proceeds from ATM stock issuances	439,037	
Net proceeds from equity transactions	9,554	21,933
Dividends and distributions	(248,601)	(243,253)
Distributions to noncontrolling interest in property partnership	(1,500)	(1,500)
Net cash provided by financing activities	171,619	263,993
Net increase in cash and cash equivalents	584,076	(178,859)
Cash and cash equivalents, beginning of period	478,948	1,448,933
Cash and cash equivalents, end of period	$ 1,063,024	$ 1,270,074
Supplemental disclosures:		
Cash paid for interest	$ 258,121	$ 274,699
Interest capitalized	$ 36,201	$ 26,412
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	$ 15,161	$ 6,927
Mortgage note payable assumed in connection with the acquisition of real estate	$ 143,900	$ 202,604
Note receivable converted to real estate	$	$ 22,500
Dividends and distributions declared but not paid	$ 83,584	$ 81,068
Conversions of noncontrolling interests to stockholders equity	$ 71,181	$ 13,748
Issuance of restricted securities to employees and directors	$ 25,087	$ 19,222

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, 2011 owned an approximate 88.0% (86.2% at September 30, 2010) 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 and February 2011, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as 2008 OPP Units and 2011 OPP Units, respectively). Because the rights, preferences and privileges of 2008 OPP Units and 2011 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 and 2011 OPP Units. On February 5, 2011, the measurement period for the Company s 2008 OPP Unit awards expired and the Company s total return to shareholders (TRS) was not sufficient for employees to earn and therefore become eligible to vest in any of the 2008 OPP Unit awards. Accordingly, all 2008 OPP Unit awards were automatically forfeited (See Notes 8 and 11).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership 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 11).

At September 30, 2011, 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 8).

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, 2011, the Company owned or had interests in a portfolio of 153 commercial real estate properties (the Properties) aggregating approximately 42.3 million net rentable square feet, including seven properties under construction totaling approximately 2.9 million net rentable square feet. In addition, the Company has structured parking for approximately 43,899 vehicles containing approximately 14.8 million square feet. At September 30, 2011, the Properties consist of:

- 147 office properties, including 128 Class A office properties (including seven properties under construction) and 19 Office/Technical properties;

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- one hotel;
- three retail properties; and
- two residential properties.

The Company owns or controls undeveloped land parcels totaling approximately 510.5 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 s investments through the Value-Added Fund are not included in its portfolio information or any other portfolio level statistics. At September 30, 2011, the Value-Added Fund had investments in 24 buildings comprised of an office property in Chelmsford, Massachusetts and office complexes in Mountain View, California.

The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, 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. The Company s definitions of Class A Office and Office/Technical properties may be different than those used by other companies.

2. Basis of Presentation and Summary of Significant Accounting Policies

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

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statements and notes thereto contained in the Company s Annual Report in the Company s Form 10-K for its fiscal year ended December 31, 2010. Certain prior year amounts have been reclassified to conform to the current year presentation.

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 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

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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, 2011 and December 31, 2010 (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage notes payable	$ 3,179,034	$ 3,337,861	$ 3,047,586	$ 3,121,193
Unsecured senior notes	3,016,986	3,073,469	3,016,598	3,241,542
Unsecured exchangeable senior notes	1,754,343(1)	1,909,227	1,721,817(1)	1,929,291
Total	$ 7,950,363	$ 8,320,557	$ 7,786,001	$ 8,292,026

(1) Includes the net impact of Accounting Standards Codification (ASC) ASC 470-20 (formerly known as FSP No. APB 14-1) totaling approximately $64.7 million and $93.6 million at September 30, 2011 and December 31, 2010, respectively.

3. Real Estate Activity During the Nine Months Ended September 30, 2011

Acquisitions

On February 1, 2011, the Company completed the acquisition of Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately $185.0 million. The purchase price consisted of approximately $41.1 million of cash and the assumption of approximately $143.9 million of indebtedness. The assumed debt 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. Bay Colony Corporate Center is an approximately 966,000 net rentable square foot, four-building Class A office park situated on a 58-acre site in Waltham, Massachusetts. The following table summarizes the allocation of the aggregate purchase price of Bay Colony Corporate Center at the date of acquisition (in thousands).

Land	$ 18,769
Building and improvements	136,081
Tenant improvements	12,370
In-place lease intangibles	20,626
Above market rents	5,802
Below market rents	(3,332)
Above market assumed debt adjustment	(5,316)
Total aggregate purchase price	$ 185,000
Less: Indebtedness assumed	(143,900)
Net assets acquired	$ 41,100

The following table summarizes the estimated amortization of the acquired above-market lease intangibles (net of acquired below-market lease intangibles) and the acquired in-place lease intangibles for Bay Colony Corporate Center for the remainder of 2011 and each of the four succeeding years (in thousands).

	Acquired In-Place Lease Intangibles	Acquired Net Above-Market Lease Intangibles

Period from October 1, 2011 through December 31, 2011	$ 1,574	$ 158
2012	5,192	520
2013	3,423	349
2014	2,543	221
2015	1,867	300

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The accompanying pro forma information for the nine months ended September 30, 2011 and 2010 is presented as if the acquisition of Bay Colony Corporate Center on February 1, 2011 had occurred on January 1, 2010. This pro forma information is based upon the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had the above occurred, nor do they purport to predict the results of operations of future periods.

Pro Forma (in thousands, except per share data)	Nine Months Ended September 30, 2011	 2010
Total revenue	$ 1,309,084	$ 1,172,640
Income from continuing operations	$ 198,209	$ 193,864
Net income attributable to Boston Properties, Inc.	$ 171,205	$ 166,133
Basic earnings per share:		
Net income per share attributable to Boston Properties, Inc.	$ 1.18	$ 1.19
Diluted earnings per share:		
Net income per share attributable to Boston Properties, Inc.	$ 1.18	$ 1.19

Developments

On January 14, 2011, the Company placed in-service approximately 57% of the office component of its Atlantic Wharf development project located in Boston, Massachusetts. The office component is comprised of approximately 790,000 net rentable square feet.

On March 1, 2011, the Company placed in-service approximately 13% of the office component of its 2200 Pennsylvania Avenue development project located in Washington, DC. The office component is comprised of approximately 457,000 net rentable square feet. On August 17, 2011, the Company completed and fully placed in-service the office component of the development project.

On May 1, 2011, the Company placed in-service approximately 16% of its 510 Madison Avenue development project located in New York City. 510 Madison Avenue is an approximately 347,000 net rentable square foot Class A office property.

On May 11, 2011, the Company partially placed in-service the Residences on The Avenue, the residential component of its 2221 I Street, NW development project located in Washington, DC. The residential component is comprised of 335 apartment units and approximately 50,000 square feet of retail space. On July 13, 2011, the Company completed and fully placed in-service the residential component of the development project.

On May 24, 2011, the Company signed a lease with a law firm for approximately 184,000 square feet at 250 West 55th Street in New York City. In conjunction with the execution of the lease, the Company resumed development of the planned approximately 989,000 square foot Class A office project and commenced capitalization of interest.

On July 1, 2011, the Company completed and placed in-service 100% of The Lofts at Atlantic Wharf, the residential component of its Atlantic Wharf development project located in Boston, Massachusetts. The residential component is comprised of 86 apartment units and approximately 10,000 square feet of retail space.

On July 5, 2011, the Company commenced the redevelopment of 12310 Sunrise Valley Drive, a Class A office project with approximately 268,000 net rentable square feet located in Reston, Virginia. The Company will capitalize incremental costs during the redevelopment.

On July 14, 2011, the Company entered into a 15-year lease for 100% of a build-to-suit development project with approximately 190,000 net rentable square feet of Class A office space located on land owned by the Company at 17 Cambridge Center in Cambridge, Massachusetts. In conjunction with the execution of the lease, the Company has commenced construction of the project.

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Dispositions

On May 23, 2011, the Company entered into a ground lease for 75 Ames Street, a vacant land parcel in Cambridge, Massachusetts located on the same site as the Company s Cambridge Center West Garage property and adjacent to the Company s Seven Cambridge Center property, to a third party. In addition, the Company entered into a development agreement to serve as project manager for a 250,000 square foot research laboratory building to be developed on the site at the ground lessee s expense and will also serve, upon completion of development, as property manager. The terms of the ground lease require the Company to form a condominium for the site upon completion of the development, at which time each party will subject their respective interests in the buildings and land to the condominium and will in turn be conveyed a condominium unit comprised of their respective building as well as an undivided ownership interest in the land. Gross proceeds to the Company are expected to total approximately $56.8 million, including $11.4 million in development fees for the Company s services. As of September 30, 2011, the Company has received approximately $48.0 million and anticipates receiving another $8.9 million in development fees through the third quarter of 2014. The cash received under the ground lease will initially be recognized as unearned revenue and recognized over the 99-year term of the ground lease. The Company will recognize approximately $459,000 per year in ground lease payments prior to the anticipated conveyance of the condominium interest in 2014. Upon completion of the development and conveyance of the condominium interest, the transaction and related remaining costs will be accounted for and recognized as a gain on sale of real estate in accordance with ASC 360-20 Real Estate Sales.

On June 6, 2011, the Company terminated its agreement, dated April 21, 2011, to sell its Carnegie Center portfolio located in Princeton, New Jersey for approximately $468.0 million. Carnegie Center is a sixteen building Class A office park set on 560 acres and totaling more than 2.0 million net rentable square feet. Under the terms of the agreement, either party had the right to terminate the agreement at any time without any cost or payment to the other party.

4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at September 30, 2011:

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	33.3%(2)
RBP Joint Venture LLC	Eighth Avenue and 46th Street	50.0%(3)
Boston Properties Office Value-Added Fund, L.P.	300 Billerica Road and Mountain View Research and Technology Parks	37.6%(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 55th Street Venture LLC	125 West 55th 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) The Company s wholly-owned entity that owns the office component of the project owns a 33.3% interest in the entity owning the land and infrastructure of the project.
(3) This property consists of assembled land.
(4) Represents the Company s effective ownership interest. The Company has a 25.0% interest in the 300 Billerica Road property and a 39.5% interest in the Mountain View Research and Technology Park properties.
(5) Comprised of one building, one building under construction and two undeveloped land parcels.

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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.

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

	September 30, 2011	December 31, 2010
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 4,991,083	$ 5,028,851
Other assets	680,091	749,308
Total assets	$ 5,671,174	$ 5,778,159
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	$ 3,139,362	$ 3,151,220
Other liabilities	907,144	969,082
Members /Partners equity	1,624,668	1,657,857
Total liabilities and members /partners equity	$ 5,671,174	$ 5,778,159
Company s share of equity	$ 898,910	$ 924,235
Basis differentials(1)	(128,444)	(156,983)
Carrying value of the Company s investments in unconsolidated joint ventures	$ 770,466	$ 767,252

(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,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Total revenue(1)	$ 150,101	$ 155,126	$ 440,733	$ 457,217
Expenses				
Operating	44,584	45,546	129,698	130,083
Depreciation and amortization	46,773	50,548	145,653	164,763
Total expenses	91,357	96,094	275,351	294,846
Operating income	58,744	59,032	165,382	162,371
Other expenses				
Interest expense	57,699	59,120	172,467	176,705
Loss on guarantee obligation		3,581		3,581
Impairment loss	39,384		39,384	

Net loss	$ (38,339)	$ (3,669)	$ (46,469)	$ (17,915)
Company s share of net loss	$ (23,231)	$ (487)	$ (28,570)	$ (7,207)
Basis differential	25,024	3,125	28,539	7,918
Elimination of inter-entity interest on partner loan	9,533	8,927	28,215	26,229
Income from unconsolidated joint ventures	$ 11,326	$ 11,565	$ 28,184	$ 26,940

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(1) Includes straight-line rent adjustments of $6.7 million and $5.9 million for the three months ended September 30, 2011 and 2010, respectively, and $14.8 million and $19.8 million for the nine months ended September 30, 2011 and 2010, respectively. Includes net above- and below-market rent adjustments of $28.3 million and $30.5 million for the three months ended September 30, 2011 and 2010, respectively, and $87.0 million and $97.6 million for the nine months ended September 30, 2011 and 2010, respectively.

On March 16, 2011, the Company s Value-Added Fund extended the maturity date by two months to May 31, 2011 of the mortgage loan collateralized by its Mountain View Technology Park property located in Mountain View, California totaling approximately $24.7 million. The mortgage loan bears interest at a variable rate equal to LIBOR plus 1.50% per annum and was scheduled to mature on March 31, 2011. On June 29, 2011, the Company s Value-Added Fund extended the maturity date to November 15, 2011.

On March 26, 2011, a joint venture in which the Company has a 30% interest removed from service and commenced the redevelopment of 500 North Capitol Street, NW located in Washington, DC. On January 18, 2011, the joint venture entered into a lease with a law firm for approximately 171,000 square feet of space (See Note 13).

On March 31, 2011, a joint venture in which the Company has a 50% interest refinanced its construction loan collateralized by Annapolis Junction located in Annapolis, Maryland. The construction loan totaling approximately $42.7 million bore interest at a variable rate equal to LIBOR plus 1.00% per annum and was scheduled to mature on September 12, 2011. The new mortgage loan totaling approximately $42.3 million bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on March 31, 2018 with one, three-year extension option, subject to certain conditions.

On June 3, 2011, a joint venture in which the Company has a 50% interest amended its joint venture agreement to add a new development project to its Annapolis Junction property located in Annapolis, Maryland. The outside joint venture partner contributed the improved parcel of land and the Company contributed cash for its 50% interest. The development project is an approximately 120,000 net rentable square foot Class A office project.

On June 28, 2011, the Company s Value-Added Fund modified the mortgage loan collateralized by its Mountain View Research Park property located in Mountain View, California. The mortgage loan totaling approximately $112.3 million bore interest at a variable rate equal to LIBOR plus 1.75% per annum and had matured on May 31, 2011. The new mortgage loan totaling $92.0 million bears interest at a variable rate equal to LIBOR plus 2.50% per annum and matures on May 31, 2014. In connection with the loan modification, the joint venture repaid approximately $20.3 million of the previous mortgage loan utilizing unfunded capital commitments from the joint venture s partners on a pro rata basis, existing cash reserves and the proceeds from a loan from the Company s Operating Partnership. The loan from the Company s Operating Partnership consists of an agreement to lend up to $12.0 million to the Company s Value-Added Fund, of which approximately $6.4 million has been advanced. The loan from the Operating Partnership bears interest at a fixed rate of 10.0% per annum and matures on May 31, 2014.

On August 12, 2011, an unconsolidated joint venture in which the Company has a 60% interest entered into an agreement to sell Two Grand Central Tower located in New York City for approximately $401.0 million, including the assumption by the buyer of approximately $176.6 million of mortgage indebtedness (See Note 13). Two Grand Central Tower is an approximately 650,000 net rentable square foot Class A office tower. The unconsolidated joint venture s carrying value of the net assets of the property aggregated approximately $425.7 million. As a result, pursuant to the provisions of ASC 360 Property, Plant and Equipment (ASC 360) (formerly known as SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets), the unconsolidated joint venture recognized a non-cash impairment loss of approximately $39.4 million, which is equal to the difference between the sale price less cost to sell and the carrying value of the net assets of the

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property. Because the Company had previously recognized an impairment loss on its investment in the unconsolidated joint venture under the provisions of ASC 323 Investments-Equity Method and Joint Ventures (ASC 323) (formerly known as Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB No. 18)), no additional impairment loss has been recognized by the Company.

5. Mortgage Notes Payable

On January 12, 2011, the Company notified the master servicer of the non-recourse mortgage loan collateralized by its Montvale Center property located in Gaithersburg, Maryland that the cash flows generated from the property were insufficient to fund debt service payments and capital improvements necessary to lease and operate the property and that the Company was not prepared to fund any cash shortfalls. Accordingly, at the request of the Company, the loan has been placed with the special servicer. The Company is not current on making debt service payments and is currently in default. The Company is currently accruing interest at the default interest rate of 9.93% per annum.

On February 1, 2011, in connection with the Company s acquisition of Bay Colony Corporate Center in Waltham, Massachusetts, the Company assumed the mortgage loan collateralized by the property totaling approximately $143.9 million. The assumed debt is a securitized senior mortgage loan that requires interest-only payments with a balloon payment due at maturity. The assumed mortgage loan, which bears contractual interest at a fixed rate of 6.53% per annum and matures on June 11, 2012, was recorded at its fair value of approximately $149.2 million using an effective interest rate of 3.75% per annum.

On May 11, 2011, the Company refinanced at maturity its mortgage loan collateralized by its 601 Lexington Avenue property located in New York City totaling approximately $453.3 million utilizing the proceeds of a draw under its Unsecured Line of Credit, which borrowing was secured by a mortgage on the property. The mortgage loan bore interest at a fixed rate of 7.19% per annum.

On August 19, 2011, the Company obtained mortgage financing totaling $725.0 million collateralized by 601 Lexington Avenue. The mortgage loan bears interest at a fixed rate of 4.75% per annum and matures on April 10, 2022. Proceeds from the mortgage financing were used to repay the borrowing under the Company s Operating Partnership s Unsecured Line of Credit totaling approximately $453.3 million. The additional cash proceeds were used to refinance the $267.5 million mortgage loan collateralized by the Company s 510 Madison Avenue property located in New York City. In connection with the refinancing, the lien of the 510 Madison Avenue mortgage was spread to 601 Lexington Avenue and released from 510 Madison Avenue so that 510 Madison Avenue is no longer encumbered by any mortgage debt.

6. Unsecured Line of Credit

On June 24, 2011, the Company s Operating Partnership amended and restated the revolving credit agreement governing the Company s Unsecured Line of Credit, which (1) reduced the total commitment from $1.0 billion to $750.0 million, (2) extended the maturity date from August 3, 2011 to June 24, 2014, with a provision for a one-year extension at the Company s option, subject to certain conditions and the payment of an extension fee equal to 0.20% of the total commitment then in effect, and (3) increased the per annum variable interest rates available, which resulted in an increase of the per annum variable interest rate on outstanding balances from Eurodollar plus 0.475% per annum to Eurodollar plus 1.225% per annum. Under the amended Unsecured Line of Credit, the Company may increase the total commitment to $1.0 billion, subject to syndication of the increase. In addition, a facility fee currently equal to an aggregate of 0.225% per annum of the total commitment is payable by the Company in equal 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 is a recourse obligation of the Company s Operating Partnership. 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 reduced interest rate. On May 11, 2011, the Company refinanced at maturity its mortgage loan collateralized by its 601 Lexington Avenue property located in New York City totaling approximately $453.3 million utilizing the proceeds of a draw under its Unsecured Line of Credit, which borrowing was secured by a mortgage on the property. On August 19, 2011, the Company used proceeds from the new mortgage financing on 601 Lexington Avenue to repay the borrowing under the Company s Operating Partnership s Unsecured Line of Credit (See Note 5). At September 30, 2011, there were no amounts outstanding on the Unsecured Line of Credit.

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 one year, (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 one year, (5) a minimum net worth requirement of $3.5 billion, (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, 2011, the Company was in compliance with each of these financial and other covenant requirements.

7. 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 $16.1 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, 2011, the maximum funding obligation under the guarantee was approximately $10.6 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 connection with the refinancing in March 2010 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, 2011, the remaining funding obligation under the guarantee was approximately $3.2 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 mortgage financing collateralized by the Company s One Freedom Square property located in Reston, Virginia, the Company has agreed to guarantee approximately $7.9 million related to its obligation to provide funds for certain tenant re-leasing costs. The mortgage financing matures on June 30, 2012.

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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.

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 other than nuclear, biological, chemical or radiological terrorism (Terrorism Coverage). The Company also carries $250 million of Terrorism Coverage for 601 Lexington Avenue, New York, New York (601 Lexington Avenue) in excess of the $1.0 billion of coverage in the Company s property insurance program which is provided by IXP, LLC (IXP) as a direct insurer. 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 Terrorism Coverage, with $1.375 billion of Terrorism Coverage in excess of $250 million being provided by NYXP, LLC (NYXP), as a direct insurer. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage for acts of terrorism certified under TRIA (NBCR Coverage), which is provided by IXP 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 the Company manages. The per occurrence limit for NBCR Coverage is $1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the additional Terrorism Coverage provided by IXP for 601 Lexington Avenue, the NBCR Coverage provided by IXP and the Terrorism Coverage provided by NYXP are 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, 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, 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, the additional Terrorism Coverage for 601 Lexington Avenue and the Company s NBCR Coverage. The additional Terrorism Coverage provided by IXP for 601 Lexington Avenue only applies to losses which exceed the program trigger under TRIA. 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 Terrorism Coverage 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 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 or amounts of insurance 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.

8. 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, 2011, the noncontrolling interests consisted of 17,037,553 OP Units, 1,603,205 LTIP Units, 400,000 2011 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, 2011 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

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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) 6.00% 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). 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 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, May 12, 2010 and May 12, 2011, although no holder exercised such right. On May 14, 2013 and May 12, 2014, the Company also has the right, subject to certain conditions, to redeem Series Two Preferred Units for cash or to convert into OP Units any Series Two Preferred Units that are not redeemed when they are eligible for redemption.

On February 15, 2011, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.75616 per unit. On May 16, 2011, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.73151 per unit. On August 15, 2011, 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, 2011 and 2010 (in thousands):

Balance at January 1, 2011	$ 55,652
Net income	2,497
Distributions	(2,497)
Balance at September 30, 2011	$ 55,652
Balance at January 1, 2010	$ 55,652
Net income	2,548
Distributions	(2,548)
Balance at September 30, 2010	$ 55,652

Noncontrolling Interest Common Units of the Operating Partnership

During the nine months ended September 30, 2011, 2,442,407 OP Units were presented by the holders for redemption (including 58,213 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, 2011, the Company had outstanding 400,000 2011 OPP Units (See Note 10). Prior to the measurement date on January 31, 2014, 2011 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 2011 OPP Units, both vested and unvested, that 2011 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 February 5, 2011, the measurement period for the Company s 2008 OPP Awards expired and the Company s TRS performance was not sufficient for employees to earn and therefore become eligible to vest in any of the 2008 OPP Awards. Accordingly, all 2008 OPP Awards were automatically forfeited and the Operating Partnership repaid employees an amount equal to $0.25 (which is equal to what they paid upon acceptance of the award) multiplied by the number of 2008 OPP Awards previously received.

On January 28, 2011, 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 December 31, 2010. On April 29, 2011, 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 2011 OPP Units in the amount of $0.05 per unit, to holders of record as of the close of business on March 31, 2011. On July 29, 2011, 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 2011 OPP Units in the amount of $0.05 per unit, to holders of record as of the close of business on June 30, 2011. On September 16, 2011, 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 2011 OPP Units in the amount of $0.05 per unit, in each case payable on October 31, 2011 to holders of record as of the close of business on September 30, 2011.

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, 2011 was approximately $1.66 billion and $130.1 million, respectively, based on the closing price of the Company s common stock of $89.10 per share on September 30, 2011.

Noncontrolling Interest Property Partnerships

The noncontrolling interests in property partnerships consist of the outside equity interest 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 $(1.0) million at September 30, 2011 and approximately $(0.6) million at December 31, 2010, are included in Noncontrolling Interests Property Partnerships on the accompanying Consolidated Balance Sheets.

9. Stockholders Equity

As of September 30, 2011, the Company had 147,627,247 shares of Common Stock outstanding.

During the nine months ended September 30, 2011, the Company utilized its initial at the market (ATM) stock offering program to issue an aggregate of 4,228,993 shares of Common Stock for gross proceeds of approximately $400.0 million and net proceeds of approximately $394.7 million. No amount remains available for issuance under this ATM program. This ATM stock offering program provided the Company with the ability to sell from time to time up to an aggregate of $400.0 million of its common stock through sales agents over a three-year period.

On June 2, 2011, the Company established a new ATM stock offering program through which it may sell from time to time up to an aggregate of $600.0 million of its common stock through sales agents over a three-year period. During the three months ended September 30, 2011, the Company issued an aggregate of 431,223 shares of stock under the ATM stock offering program for gross proceeds of approximately $44.9 million and net proceeds of approximately $44.4 million. As of September 30, 2011, approximately $555.1 million remained available for issuance under this ATM program.

During the nine months ended September 30, 2011, the Company issued 312,711 shares of Common Stock upon the exercise of options to purchase Common Stock by certain employees.

During the nine months ended September 30, 2011, the Company issued 2,442,407 shares of Common Stock in connection with the redemption of an equal number of OP Units.

On January 28, 2011, 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, 2010. On April 29, 2011, 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, 2011. On July 29, 2011, 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, 2011. On September 16, 2011, the Company s Board of Directors declared a dividend in the amount of $0.50 per share of Common Stock payable on October 31, 2011 to shareholders of record as of the close of business on September 30, 2011.

10. 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, 2008 OPP Units and 2011 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 and 2011 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 such units from the diluted EPS calculation. For the three and nine months ended September 30, 2011, assuming the measurement period for the 2011 OPP Units ended on September 30, 2011, the Company s total return to stockholders compared to the absolute and relative return thresholds for the 2011 OPP Units would have resulted in participants earning and being eligible to vest in an aggregate of approximately 325,000 2011 OPP Units. As a result, these 2011 OPP Units have been included in the diluted EPS calculation. For the three and nine months ended September 30, 2010, 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, 2011		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	$ 70,542	147,006	$ 0.48
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		616	(0.00)
Diluted Earnings:			
Net income	$ 70,542	147,622	$ 0.48

	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 and Exchangeable Senior Notes		598	(0.00)
Diluted Earnings:			
Net income	$ 57,668	140,193	$ 0.41

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	For the nine months ended September 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	$ 171,359	145,006	$ 1.18
Effect of Dilutive Securities:			
Stock Based Compensation		619	(0.00)
Diluted Earnings:			
Net income	$ 171,359	145,625	$ 1.18

	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

11. Stock Option and Incentive Plan

On January 20, 2011, the Compensation Committee of the Board of Directors of the Company approved outperformance awards under the Company s 1997 Stock Option and Incentive Plan (the 1997 Plan) to certain officers of the Company. These awards (the 2011 OPP Awards) are part of a broad-based, long-term incentive compensation program designed to provide the Company s management team with the potential to earn equity awards subject to the Company outperforming and creating shareholder value in a pay-for-performance structure. 2011 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2011 OPP Awards will share in an outperformance pool if the Company s TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 1, 2011 to January 31, 2014, based on the average closing price of a share of the Company s common stock of $93.38 for the five trading days prior to and including February 1, 2011. The aggregate reward that recipients of all 2011 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of $40.0 million.

The outperformance pool will consist of (i) two percent (2%) of the excess total return above a cumulative absolute TRS hurdle of 27% over the full three-year measurement period (equivalent to 9% per annum) (the Absolute TRS Component) and (ii) two percent (2%) of the excess or deficient excess total return above or below a relative TRS hurdle equal to the total return of the SNL Equity REIT Index over the three-year measurement period (the Relative TRS Component). In the event that the Relative TRS Component is potentially positive because the Company s TRS is greater than the total return of the SNL Equity REIT Index, but the Company achieves a cumulative absolute TRS below 27% over the three-year measurement period (equivalent to 9% per annum), the actual contribution to the outperformance pool from the Relative TRS Component will be subject to a sliding scale factor as follows: (i) 100% of the potential Relative TRS Component will be earned if the Company s TRS is equal to or greater than a cumulative 27% over three years, (ii) 0% will be earned if the Company s TRS is 0% or less, and (iii) a percentage from 0% to 100% calculated by linear interpolation will be earned if the Company s cumulative TRS over three years is between 0% and 27%. For example, if the Company achieves a cumulative absolute TRS of 18% over the full three-year measurement period (equivalent to a 6% absolute annual TRS), the potential Relative TRS Component would be prorated by

66.67%. The potential Relative TRS Component before application of the sliding scale factor will be capped at $40.0 million. In the event that the Relative TRS Component is negative because the Company s TRS is less than the total return of the SNL Equity REIT Index, any outperformance reward potentially earned under the Absolute TRS Component will be reduced dollar for dollar, provided that the potential Absolute TRS Component before reduction for any negative Relative TRS Component will be capped at $40.0 million. The algebraic sum of the Absolute TRS Component and the Relative TRS Component determined as described above will never exceed $40.0 million.

Each employee s 2011 OPP Award was designated as a specified percentage of the aggregate outperformance pool. Assuming the applicable absolute and/or relative TRS thresholds are achieved at the end of the measurement period, the algebraic sum of the Absolute TRS Component and the Relative TRS Component will be calculated and then allocated among the 2011 OPP Award recipients in accordance with each individual s percentage. If there is a change of control prior to January 31, 2014, the measurement period will end on the change of control date and both the Absolute TRS Component (using a prorated absolute TRS hurdle) and the Relative TRS Component will be calculated and, assuming the applicable absolute and/or relative TRS thresholds are achieved over the shorter measurement period, allocated among the 2011 OPP Award recipients as of that date.

Rewards earned with respect to 2011 OPP Awards (if any) will vest 25% on February 1, 2014, 25% on February 1, 2015 and 50% on February 1, 2016, based on continued employment. Vesting will be accelerated in the event of a change in control of the Company, termination of employment without cause, termination of employment by the award recipient for good reason, death, disability or retirement, although restrictions on transfer will continue to apply in certain of these situations. All determinations, interpretations and assumptions relating to the calculation of performance and vesting relating to 2011 OPP Awards will be made by the Compensation Committee. 2011 OPP Awards will be in the form of LTIP Units. LTIP Units will be issued prior to the determination of the outperformance pool, but will remain subject to forfeiture depending on the extent of rewards earned with respect to 2011 OPP Awards. The number of LTIP Units issued initially to recipients of the 2011 OPP Awards is an estimate of the maximum number of LTIP Units that they could earn, based on certain assumptions. The number of LTIP Units actually earned by each award recipient will be determined at the end of the performance measurement period by dividing his or her share of the outperformance pool by the average closing price of a REIT Share for the 15 trading days immediately preceding the measurement date. Total return for the Company and for the SNL Equity REIT Index over the three-year measurement period and other circumstances will determine how many LTIP Units are earned by each recipient; if they are fewer than the number issued initially, the balance will be forfeited as of the performance measurement date. Prior to the measurement date, LTIP units issued on account of 2011 OPP Awards 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 LTIP Units, both vested and unvested, which 2011 OPP Award recipients have earned based on the establishment of an outperformance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit. LTIP Units are designed to qualify as profits interests in the Operating Partnership for federal income tax purposes. As a general matter, the profits interests characteristics of the LTIP Units mean that initially they will not be economically equivalent in value to an OP Unit. If and when events specified by applicable tax regulations occur, LTIP Units can over time increase in value up to the point where they are equivalent to OP Units on a one-for-one basis. After LTIP Units are fully vested, and to the extent the special tax rules applicable to profits interests have allowed them to become equivalent in value to OP Units, LTIP Units may be converted on a one-for-one basis into OP Units. OP Units in turn have a one-for-one relationship in value with Boston Properties, Inc. common stock, and are exchangeable on such one-for-one basis for cash or, at the election of the Company, Boston Properties, Inc. common stock.

The 2011 OPP Units were valued at an aggregate of approximately $7.8 million utilizing a Monte Carlo simulation to estimate the probability of the performance vesting conditions being satisfied. The Monte Carlo simulation used a statistical formula underlying the Black-Scholes and binomial formulas and such simulation

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was run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, which is then discounted to the award date at a risk-free interest rate. The average of the values over all simulations is the expected value of the unit on the award date. Assumptions used in the valuations included (1) factors associated with the underlying performance of the Company s stock price and total shareholder return over the term of the performance awards including total stock return volatility and risk-free interest and (2) factors associated with the relative performance of the Company s stock price and total shareholder return when compared to the SNL Equity REIT Index. The valuation was performed in a risk-neutral framework, so no assumption was made with respect to an equity risk premium. The fair value of the 2011 OPP Units is based on the sum of: (1) the present value of the expected payoff to the OPP Award on the measurement date, if the TRS over the applicable measurement period exceeds performance hurdles of the Absolute and the Relative Components; and (2) the present value of the distributions payable on the 2011 OPP Units. The ultimate reward realized on account of the OPP Award by the holders of the 2011 OPP Units is contingent on the TRS achieved on the measurement date, both in absolute terms and relative to the TRS of the SNL Equity REIT Index. The per unit fair value of each 2011 OPP Unit was estimated on the date of grant using the following assumptions in the Monte Carlo valuation: expected price volatility for the Company and the SNL Equity REIT index of 41% and 37%, respectively; a risk free rate of 0.98%; and total dividend payments over the measurement period of $6.10 per share.

During the nine months ended September 30, 2011, the Company issued 19,030 shares of restricted common stock, 146,844 non-qualified stock options, 190,067 LTIP Units and 400,000 2011 OPP Units to employees and non-employee directors under the 1997 Plan. Employees and directors paid $0.01 per share of restricted common stock and $0.25 per LTIP Unit and 2011 OPP Unit. 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. Grants of restricted stock and LTIP Units 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. The shares of restricted stock granted during the nine months ended September 30, 2011 were valued at approximately $1.8 million ($93.40 per share weighted-average). The non-qualified stock options