

BOSTON PROPERTIES INC

Form 10-Q

November 08, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2012

.. **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
(Class)

150,862,873
(Outstanding on November 2, 2012)

Table of Contents

BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2012

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. <u>Financial Statements (unaudited)</u>	1
a) <u>Consolidated Balance Sheets as of September 30, 2012 and December 31, 2011</u>	1
b) <u>Consolidated Statements of Operations for the three and nine months ended September 30, 2012 and 2011</u>	2
c) <u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011</u>	3
d) <u>Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2012 and 2011</u>	4
e) <u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011</u>	5
f) <u>Notes to the Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	76
ITEM 4. <u>Controls and Procedures</u>	77
PART II. OTHER INFORMATION	
ITEM 1. <u>Legal Proceedings</u>	78
ITEM 1A. <u>Risk Factors</u>	78
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	78
ITEM 3. <u>Defaults Upon Senior Securities</u>	79
ITEM 4. <u>Mine Safety Disclosures</u>	79
ITEM 5. <u>Other Information</u>	79
ITEM 6. <u>Exhibits</u>	79
<u>SIGNATURES</u>	80

Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1 Financial Statements.****BOSTON PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(in thousands, except for share and par value amounts)**

	September 30, 2012	December 31, 2011
ASSETS		
Real estate, at cost	\$ 13,165,836	\$ 12,303,965
Construction in progress	937,475	818,685
Land held for future development	273,922	266,822
Less: accumulated depreciation	(2,843,167)	(2,642,986)
Total real estate	11,534,066	10,746,486
Cash and cash equivalents	1,223,215	1,823,208
Cash held in escrows	32,253	40,332
Investments in securities	11,792	9,548
Tenant and other receivables (net of allowance for doubtful accounts of \$1,381 and \$1,766, respectively)	45,039	79,838
Related party notes receivable	282,206	280,442
Interest receivable from related party notes receivable	102,122	89,854
Accrued rental income (net of allowance of \$2,771 and \$2,515, respectively)	579,553	522,675
Deferred charges, net	534,898	445,403
Prepaid expenses and other assets	132,109	75,458
Investments in unconsolidated joint ventures	664,690	669,722
Total assets	\$ 15,141,943	\$ 14,782,966
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$ 2,848,686	\$ 3,123,267
Unsecured senior notes (net of discount of \$10,783 and \$9,814, respectively)	4,639,217	3,865,186
Unsecured exchangeable senior notes (net of discount of \$2,012 and \$3,462, respectively)	1,162,955	1,715,685
Unsecured line of credit		
Accounts payable and accrued expenses	193,492	155,139
Dividends and distributions payable	93,461	91,901
Accrued interest payable	98,601	69,105
Other liabilities	309,004	293,515
Total liabilities	9,345,416	9,313,798
Commitments and contingencies		
Noncontrolling interest:		
Redeemable preferred units of the Operating Partnership	110,876	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		
Common stock, \$.01 par value, 250,000,000 shares authorized, 150,935,137 and 148,186,511 issued and 150,856,237 and 148,107,611 outstanding at September 30, 2012 and December 31, 2011, respectively	1,509	1,481

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Additional paid-in capital	5,194,569	4,936,457
Dividends in excess of earnings	(59,621)	(53,080)
Treasury common stock at cost, 78,900 shares at September 30, 2012 and December 31, 2011	(2,722)	(2,722)
Accumulated other comprehensive loss	(14,379)	(16,138)
Total stockholders' equity attributable to Boston Properties, Inc.	5,119,356	4,865,998
Noncontrolling interests:		
Common units of the Operating Partnership	568,147	548,581
Property partnerships	(1,852)	(1,063)
Total equity	5,685,651	5,413,516
 Total liabilities and equity	 \$ 15,141,943	 \$ 14,782,966

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	\$ 370,494	\$ 358,607	\$ 1,098,870	\$ 1,042,729
Recoveries from tenants	59,957	53,194	169,179	146,689
Parking and other	23,070	21,679	69,021	61,838
Total rental revenue	453,521	433,480	1,337,070	1,251,256
Hotel revenue	9,359	8,045	26,224	22,897
Development and management services	8,024	8,178	25,734	24,699
Total revenue	470,904	449,703	1,389,028	1,298,852
Expenses				
Operating				
Rental	168,939	153,776	487,238	436,300
Hotel	6,886	6,032	19,601	18,052
General and administrative	19,757	16,917	66,442	60,281
Transaction costs	1,140	474	3,252	1,907
Depreciation and amortization	111,360	108,674	331,943	327,526
Total expenses	308,082	285,873	908,476	844,066
Operating income	162,822	163,830	480,552	454,786
Other income (expense)				
Income from unconsolidated joint ventures	9,217	11,326	42,129	28,184
Interest and other income	4,001	1,252	8,029	4,179
Gains (losses) from investments in securities	587	(860)	1,202	(481)
Losses from early extinguishments of debt	(5,494)		(4,453)	
Interest expense	(105,030)	(95,117)	(308,168)	(288,225)
Income from continuing operations	66,103	80,431	219,291	198,443
Discontinued operations				
Income (loss) from discontinued operations		20	884	(60)
Gain on sale of real estate from discontinued operations			36,877	
Gain on forgiveness of debt from discontinued operations			17,807	
Net income	66,103	80,451	274,859	198,383
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnership	(458)	(86)	(1,461)	(1,118)
Noncontrolling interest - redeemable preferred units of the Operating Partnership	(874)	(832)	(2,440)	(2,497)
Noncontrolling interest - common units of the Operating Partnership	(7,002)	(8,989)	(23,393)	(23,417)
Noncontrolling interest in discontinued operations - common units of the Operating Partnership		(2)	(6,092)	8
Net income attributable to Boston Properties, Inc.	\$ 57,769	\$ 70,542	\$ 241,473	\$ 171,359
Basic earnings per common share attributable to Boston Properties, Inc.:				
Income from continuing operations	\$ 0.38	\$ 0.48	\$ 1.28	\$ 1.18
Discontinued operations			0.33	

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Net income	\$	0.38	\$	0.48	\$	1.61	\$	1.18
Weighted average number of common shares outstanding		150,801		147,006		149,823		145,006
Diluted earnings per common share attributable to Boston Properties, Inc.:								
Income from continuing operations	\$	0.38	\$	0.48	\$	1.27	\$	1.18
Discontinued operations						0.33		
Net income	\$	0.38	\$	0.48	\$	1.60	\$	1.18
Weighted average number of common and common equivalent shares outstanding		151,983		147,622		150,478		145,625

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Net income	\$ 66,103	\$ 80,451	\$ 274,859	\$ 198,383
Other comprehensive income:				
Amortization of interest rate contracts	670	649	1,967	1,946
Other comprehensive income	670	649	1,967	1,946
Comprehensive income	66,773	81,100	276,826	200,329
Net income attributable to noncontrolling interests	(8,334)	(9,909)	(33,386)	(27,024)
Other comprehensive income attributable to noncontrolling interests	(71)	(72)	(208)	(227)
Comprehensive income attributable to Boston Properties, Inc.	\$ 58,368	\$ 71,119	\$ 243,232	\$ 173,078

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

Table of Contents**BOSTON PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(Unaudited and in thousands)

	Common Stock		Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Noncontrolling		Total
	Shares	Amount				Loss	Interests	
Equity, December 31, 2011	148,108	\$ 1,481	\$ 4,936,457	\$ (53,080)	\$ (2,722)	\$ (16,138)	\$ 547,518	\$ 5,413,516
Conversion of operating partnership units to common stock	366	4	11,232				(11,236)	
Conversion of redeemable preferred units to common units							5,852	5,852
Allocated net income for the year				241,473			30,946	272,419
Dividends/distributions declared				(248,014)			(30,100)	(278,114)
Sale of common stock, net of offering costs	2,348	24	247,162					247,186
Shares issued pursuant to stock purchase plan	8		781					781
Net activity from stock option and incentive plan	26		4,473				19,821	24,294
Distributions to noncontrolling interests in property partnerships							(2,250)	(2,250)
Amortization of interest rate contracts						1,759	208	1,967
Reallocation of noncontrolling interest			(5,536)				5,536	
Equity, September 30, 2012	150,856	\$ 1,509	\$ 5,194,569	\$ (59,621)	\$ (2,722)	\$ (14,379)	\$ 566,295	\$ 5,685,651
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)	
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
Reallocation of noncontrolling interest			(26,755)				26,755	
Equity, September 30, 2011	147,627	\$ 1,476	\$ 4,916,440	\$ (72,941)	\$ (2,722)	\$ (16,717)	\$ 558,625	\$ 5,384,161

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

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

	For the nine months ended September 30,	
	2012	2011
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 274,859	\$ 198,383
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	332,983	330,003
Non-cash compensation expense	24,859	23,702
Income from unconsolidated joint ventures	(42,129)	(28,184)
Distributions of net cash flow from operations of unconsolidated joint ventures	32,359	27,222
Losses (gains) from investments in securities	(1,202)	481
Non-cash portion of interest expense	32,669	41,016
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes	(68,760)	
Losses from early extinguishments of debt	(1,000)	
Gain on sale of real estate from discontinued operations	(36,877)	
Gain on forgiveness of debt from discontinued operations	(17,807)	
Change in assets and liabilities:		
Cash held in escrows	7,803	(6,228)
Tenant and other receivables, net	28,680	13,097
Accrued rental income, net	(59,505)	(66,155)
Prepaid expenses and other assets	(29,900)	(66,597)
Accounts payable and accrued expenses	3,713	5,341
Accrued interest payable	31,677	27,228
Other liabilities	(6,939)	(15,664)
Tenant leasing costs	(41,797)	(40,786)
Total adjustments	188,827	244,476
Net cash provided by operating activities	463,686	442,859
Cash flows from investing activities:		
Acquisitions of real estate	(688,073)	(41,100)
Construction in progress	(238,627)	(205,580)
Building and other capital improvements	(32,159)	(29,406)
Tenant improvements	(108,100)	(50,400)
Proceeds from the sale of real estate	61,963	
Proceeds from land transaction		43,887
Proceeds from mortgage loan released from escrow		267,500
Deposits on real estate	(15,000)	10,000
Issuance of notes receivable, net	(1,764)	(6,375)
Capital contributions to unconsolidated joint ventures	(367)	(17,867)
Capital distributions from unconsolidated joint ventures	3,057	
Investments in securities, net	(1,042)	(1,061)
Net cash used in investing activities	(1,020,112)	(30,402)

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

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

	For the nine months ended September 30,	
	2012	2011
	(in thousands)	
Cash flows from financing activities:		
Proceeds from mortgage notes payable		1,178,306
Repayments of mortgage notes payable	(248,304)	(1,196,074)
Proceeds from unsecured senior notes	997,790	
Redemption of unsecured senior notes	(225,000)	
Redemption/repurchase of unsecured exchangeable senior notes	(507,434)	
Deferred financing costs	(8,448)	(9,103)
Net proceeds from ATM stock issuances	247,186	439,037
Net proceeds from equity transactions	216	9,554
Redemption of preferred units	(18,329)	
Dividends and distributions	(278,994)	(248,601)
Distributions to noncontrolling interest in property partnership	(2,250)	(1,500)
Net cash provided by (used in) financing activities	(43,567)	171,619
Net increase (decrease) in cash and cash equivalents	(599,993)	584,076
Cash and cash equivalents, beginning of period	1,823,208	478,948
Cash and cash equivalents, end of period	\$ 1,223,215	\$ 1,063,024
Supplemental disclosures:		
Cash paid for interest	\$ 344,213	\$ 258,121
Interest capitalized	\$ 31,409	\$ 36,201
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable and accrued expenses	\$ 11,190	\$ 15,161
Mortgage note payable assumed in connection with the acquisition of real estate	\$	\$ 143,900
Mortgage note payable extinguished through foreclosure	\$ 25,000	\$
Real estate transferred upon foreclosure	\$ 8,198	\$
Preferred units issued in connection with the acquisition of real estate	\$ 79,405	\$
Dividends and distributions declared but not paid	\$ 93,461	\$ 83,584
Conversions of noncontrolling interests to stockholders equity	\$ 11,236	\$ 71,181
Conversion of redeemable preferred units to common units	\$ 5,852	\$

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Issuance of restricted securities to employees and directors	\$ 26,351	\$ 25,087
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The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**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, 2012 owned an approximate 88.6% (88.0% at September 30, 2011) 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, February 2011 and February 2012, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as 2008 OPP Units, 2011 OPP Units and 2012 OPP Units, respectively, and collectively as OPP Units). Because the rights, preferences and privileges of 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 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 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 9 and 12).

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 value of a share of common stock of the Company (Common Stock) at such time. 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 12).

At September 30, 2012, there were two series of Preferred Units outstanding (i.e., Series Two Preferred Units and Series Four 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. Each Series Two Preferred Unit may also be converted into approximately 1.312336 OP Units or redeemed for \$50.00 of 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. The Series Four Preferred Units are not convertible into or exchangeable for any common equity of the Operating Partnership or the Company, have a per unit liquidation preference of \$50.00 and are entitled to receive quarterly distributions of \$0.25 per unit (or an annual rate of 2.00%) (See Note 9).

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, 2012, the Company owned or had interests in a portfolio of 152 commercial real estate properties (the Properties) aggregating approximately 43.4 million net rentable square feet, including eight

Table of Contents

properties under construction totaling approximately 2.7 million net rentable square feet. In addition, the Company has structured parking for approximately 44,703 vehicles containing approximately 15.2 million square feet. At September 30, 2012, the Properties consist of:

145 office properties, including 128 Class A office properties (including seven properties under construction) and 17 Office/Technical properties;

one hotel;

three retail properties; and

three residential properties (including one property under construction).

The Company owns or controls undeveloped land parcels totaling approximately 510.7 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, 2012, the Value-Added Fund had investments in 23 buildings comprised of two 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, 2011. Certain prior year amounts have been reclassified to conform to the current year presentation.

The Company follows the authoritative guidance for fair value measurements when valuing its financial instruments for disclosure purposes. The Company determines the fair value of its unsecured senior notes and unsecured exchangeable senior notes using market prices. The inputs used in determining the fair value of the Company's unsecured senior notes and unsecured exchangeable senior notes is categorized at a level 1 basis (as

Table of Contents

defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company uses quoted market rates to value these instruments. However, the inputs used in determining the fair value could be categorized at a level 2 basis if trading volumes are low. The Company determines the fair value of its mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt 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. The inputs used in determining the fair value of the Company's mortgage notes payable are categorized at a level 3 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company considers the rates used in the valuation techniques to be unobservable inputs.

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, 2012 and December 31, 2011 (in thousands):

	September 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Mortgage notes payable	\$ 2,848,686	\$ 2,968,017	\$ 3,123,267	\$ 3,297,903
Unsecured senior notes	4,639,217	5,163,293	3,865,186	4,148,461
Unsecured exchangeable senior notes	1,162,955(1)	1,325,431	1,715,685(1)	1,904,115
Total	\$ 8,650,858	\$ 9,456,741	\$ 8,704,138	\$ 9,350,479

(1) Includes the net impact of Accounting Standards Codification (ASC) ASC 470-20 totaling approximately \$32.5 million and \$54.5 million at September 30, 2012 and December 31, 2011, respectively.

Out-of-Period Adjustment

During the nine months ended September 30, 2012, the Company recorded additional real estate operating expenses totaling approximately \$3.2 million related to the cumulative non-cash straight-line adjustment to the ground rent expense of certain ground leases that were not previously recognized on a straight-line basis. This resulted in the overstatement of real estate operating expenses by approximately \$3.2 million during the nine months ended September 30, 2012 and in the understatement of real estate operating expenses in the aggregate amount of approximately \$3.2 million in previous periods. Because this adjustment was not material to the prior years' consolidated financial statements and the impact of recording the adjustment in the current period is not material to the Company's consolidated financial statements, the Company recorded the related adjustment during the nine months ended September 30, 2012.

3. Real Estate Activity During the Nine Months Ended September 30, 2012**Acquisitions**

On March 1, 2012, the Company acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately \$6.7 million in cash. 453 Ravendale Drive is an approximately 30,000 net rentable square foot Office/Technical property. The following table summarizes the allocation of the aggregate purchase price of 453 Ravendale Drive at the date of acquisition (in thousands).

Land	\$ 5,477
Building and improvements	974
Tenant improvements	116
In-place lease intangibles	223
Below-market rents	(140)

Net assets acquired

\$ 6,650

Table of Contents

On March 13, 2012, the Company acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately \$615.0 million in cash. In connection with the transaction, the Company entered into a long-term lease with an affiliate of Bank of America for approximately 735,000 square feet. 100 Federal Street is an approximately 1,264,000 net rentable square foot, 37-story Class A office tower located in Boston, Massachusetts. The following table summarizes the allocation of the aggregate purchase price of 100 Federal Street at the date of acquisition (in thousands).

Land	\$ 131,067
Building and improvements	387,321
Tenant improvements	48,633
In-place lease intangibles	69,530
Above-market rents	81
Other assets	4,800
Below-market rents	(22,515)
Accounts payable and accrued expenses	(3,917)
Net assets acquired	\$ 615,000

The following table summarizes the estimated amortization of the acquired in-place lease intangibles and the acquired net below-market lease intangibles for 453 Ravendale Drive and 100 Federal Street, collectively, for each of the five succeeding years (in thousands).

	Acquired In-Place Lease Intangibles	Acquired Net Below- Market Lease Intangibles
Period from October 1, 2012 through December 31, 2012	\$ 2,533	\$ 930
2013	10,084	3,709
2014	7,869	3,374
2015	5,927	2,885
2016	5,199	2,512

100 Federal Street contributed approximately \$36.5 million of revenue and approximately \$6.3 million of earnings to the Company for the period from March 13, 2012 through September 30, 2012. 453 Ravendale Drive contributed approximately \$0.3 million of revenue and approximately \$0.1 million of earnings to the Company for the period from March 1, 2012 through September 30, 2012.

The accompanying pro forma information for the nine months ended September 30, 2012 and 2011 is presented as if the operating property acquisitions of (1) 453 Ravendale Drive on March 1, 2012 and (2) 100 Federal Street on March 13, 2012, had occurred on January 1, 2011. 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,	
	2012	2011
Total revenue	\$ 1,403,155	\$ 1,348,017
Income from continuing operations	\$ 221,617	\$ 205,720
Net income attributable to Boston Properties, Inc.	\$ 243,553	\$ 177,788
Basic earnings per share:		
Net income per share attributable to Boston Properties, Inc.	\$ 1.63	\$ 1.23
Diluted earnings per share:		
Net income per share attributable to Boston Properties, Inc.	\$ 1.62	\$ 1.22

Table of Contents**Developments**

On January 3, 2012, the Company commenced the redevelopment of Two Patriots Park, a Class A office project with approximately 256,000 net rentable square feet located in Reston, Virginia. The Company will capitalize incremental costs during the redevelopment.

On April 30, 2012, the Company completed and fully placed in-service 510 Madison Avenue, a Class A office project with approximately 356,000 net rentable square feet located in New York City.

On May 4, 2012, the Company completed and fully placed in-service One Patriots Park, a Class A office redevelopment project with approximately 268,000 net rentable square feet located in Reston, Virginia.

On August 29, 2012, the Company acquired the development project located at 680 Folsom Street and 50 Hawthorne Street in San Francisco, California. When completed, the project will comprise approximately 522,000 net rentable square feet of Class A office and retail space. The project is approximately 85% pre-leased and as a result the Company has accounted for the acquisition as a business combination. The estimated project cost upon completion is approximately \$340 million. As part of the transaction, the Company also acquired the corner site of 690 Folsom Street, which is an adjacent parcel with a vacant 22,000 square foot, two-story structure that may be redeveloped in the future. The consideration paid by the Company to the seller consisted of approximately \$62.2 million in cash and the issuance of 1,588,100 Series Four Preferred Units of limited partnership interest in the Company's Operating Partnership (the Series Four Preferred Units). The Series Four Preferred Units are not convertible into or exchangeable for any common equity of the Operating Partnership or the Company, have a per unit liquidation preference of \$50.00 and are entitled to receive quarterly distributions of \$0.25 per unit (or an annual rate of 2.0%) (See Note 9). In connection with the acquisition, the Company also assumed a \$170.0 million construction loan commitment, although no amount is currently outstanding. The following table summarizes the allocation of the aggregate purchase price of 680 Folsom Street at the date of acquisition (in thousands).

Construction in progress	\$ 117,046
Land held for future development	3,058
In-place lease intangibles	32,799
Deferred financing costs	245
Prepaid expenses and other assets	7,473
Accounts payable and accrued expenses	(14,502)
Net assets acquired	\$ 146,119

Dispositions

On January 31, 2012, the servicer of the non-recourse mortgage loan collateralized by the Company's Montvale Center property foreclosed on the property. Montvale Center is an office property with approximately 123,000 net rentable square feet located in Gaithersburg, Maryland. During 2011, the Company had notified the master servicer of the non-recourse mortgage loan 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. The Company was not current on making debt service payments and was accruing interest at the default interest rate of 9.93% per annum. The loan was originally scheduled to mature on June 6, 2012. As a result of the foreclosure, the mortgage loan totaling \$25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate and working capital to the servicer. The Company no longer has any equitable or economic ownership interest in the property. The transaction resulted in a gain on forgiveness of debt of approximately \$17.8 million. The operating results of the property through the date of foreclosure have been classified as discontinued operations on a historical basis for all periods presented.

On May 17, 2012, the Company completed the sale of its Bedford Business Park properties located in Bedford, Massachusetts for approximately \$62.8 million in cash. Net cash proceeds totaled approximately \$62.0 million, resulting in a gain on sale of approximately \$36.9 million. Bedford Business Park is comprised of two Office/Technical buildings and one Class A office building aggregating approximately 470,000 net rentable square feet.

Table of Contents

The following table summarizes the income (loss) from discontinued operations related to Montvale Center and Bedford Business Park and the related gain on sale of real estate and gain on forgiveness of debt for the three and nine months ended September 30, 2012 and 2011:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Total revenue	\$	\$ 2,710	\$ 3,748	\$ 7,887
Expenses				
Operating		1,209	1,602	3,531
Depreciation and amortization		821	1,040	2,477
Total expenses		2,030	2,642	6,008
Operating income		680	1,106	1,879
Other expense				
Interest expense		(660)	(222)	(1,939)
Income (loss) from discontinued operations	\$	\$ 20	\$ 884	\$ (60)
Noncontrolling interest in income (loss) from discontinued operations common units of the Operating Partnership		(2)	(93)	8
Income (loss) from discontinued operations attributable to Boston Properties, Inc.	\$	\$ 18	\$ 791	\$ (52)
Gain on sale of real estate from discontinued operations	\$	\$	\$ 36,877	\$
Gain on forgiveness of debt from discontinued operations			17,807	
Noncontrolling interest in gain on sale of real estate and gain on forgiveness of debt from discontinued operations common units of the Operating Partnership			(5,999)	
Gain on sale of real estate and gain on forgiveness of debt from discontinued operations attributable to Boston Properties, Inc.	\$	\$	\$ 48,685	\$

4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at September 30, 2012:

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	39.5%(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%(6)
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%(7)

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- (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 also owns a 33.3% interest in the entity owning the land and infrastructure of the project.

Table of Contents

- (3) This property is not in operation and consists of assembled land.
- (4) The Company has a 39.5% interest in the Mountain View Research and Technology Park properties. 300 Billerica Road, in which the Company had a 25.0% interest, was sold on September 27, 2012. As of September 30, 2012, the Company's investment in the Value-Added Fund included undistributed proceeds from the sale of 300 Billerica Road.
- (5) Comprised of one building, one building under construction and two undeveloped land parcels.
- (6) The property was sold on October 25, 2011. As of September 30, 2012, the investment is comprised of working capital and a portion of undistributed sale proceeds.
- (7) This property is under construction.
- 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, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Real estate and development in process, net	\$ 4,504,954	\$ 4,542,594
Other assets	657,141	668,113
Total assets	\$ 5,162,095	\$ 5,210,707
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	\$ 3,026,898	\$ 2,988,894
Other liabilities	791,110	854,257
Members /Partners equity	1,344,087	1,367,556
Total liabilities and members /partners equity	\$ 5,162,095	\$ 5,210,707
Company's share of equity	\$ 793,166	\$ 799,479
Basis differentials(1)	(128,476)	(129,757)
Carrying value of the Company's investments in unconsolidated joint ventures	\$ 664,690	\$ 669,722

- (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.

Table of Contents

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)			
Total revenue(1)	\$ 135,998	\$ 150,101	\$ 431,133	\$ 440,733
Expenses				
Operating	42,298	44,584	120,451	129,698
Depreciation and amortization	39,291	46,773	123,869	145,653
Total expenses	81,589	91,357	244,320	275,351
Operating income	54,409	58,744	186,813	165,382
Other expense				
Interest expense	56,521	57,699	167,792	172,467
Impairment loss		39,384		39,384
Income (loss) from continuing operations	(2,112)	(38,339)	19,021	(46,469)
Gain on sale of real estate	990		990	
Net income (loss)	\$ (1,122)	\$ (38,339)	\$ 20,011	\$ (46,469)
Company's share of net income (loss)	\$ (1,420)	\$ (23,231)	\$ 10,591	\$ (28,570)
Basis differential	384	25,024	1,282	28,539
Elimination of inter-entity interest on partner loan	10,253	9,533	30,256	28,215
Income from unconsolidated joint ventures	\$ 9,217	\$ 11,326	\$ 42,129	\$ 28,184

(1) Includes straight-line rent adjustments of \$2.2 million and \$6.7 million for the three months ended September 30, 2012 and 2011, respectively, and \$9.3 million and \$14.8 million for the nine months ended September 30, 2012 and 2011, respectively. Includes net below-market rent adjustments of \$22.1 million and \$28.3 million for the three months ended September 30, 2012 and 2011, respectively, and \$70.6 million and \$87.0 million for the nine months ended September 30, 2012 and 2011, respectively. Total revenue for the nine months ended September 30, 2012 includes termination income totaling approximately \$19.6 million (of which the Company's share is approximately \$11.8 million) related to a lease termination with a tenant at the General Motors Building.

On July 25, 2012, a joint venture in which the Company has a 50% interest partially placed in-service Annapolis Junction Building Six, a Class A office property with approximately 120,000 net rentable square feet located in Annapolis, Maryland.

On September 27, 2012, the Company's Value-Added Fund completed the sale of its 300 Billerica Road property located in Chelmsford, Massachusetts for approximately \$12.2 million, including the assumption by the buyer of \$7.5 million of mortgage indebtedness. 300 Billerica Road is an approximately 111,000 net rentable square foot office building. Net cash proceeds totaled approximately \$4.3 million, of which the Company's share was approximately \$2.8 million, after the payment of transaction costs. The Company's share of the net proceeds included approximately \$2.4 million resulting from the Value-Added Fund's repayment of a loan from the Company's Operating Partnership. The Value-Added Fund recognized a gain on sale of real estate totaling approximately \$1.0 million, of which the Company's share totaled approximately \$0.2 million and is included within income from unconsolidated joint ventures in the Company's consolidated statements of operations.

5. Mortgage Notes Payable

On January 31, 2012, the servicer of the non-recourse mortgage loan collateralized by the Company's Montvale Center property located in Gaithersburg, Maryland foreclosed on the property. During 2011, the Company had notified the master servicer of the non-recourse mortgage loan that the cash flows generated from

Table of Contents

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. The Company was not current on making debt service payments and was accruing interest at the default interest rate of 9.93% per annum. The loan was originally scheduled to mature on June 6, 2012. As a result of the foreclosure, the mortgage loan totaling \$25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate and working capital to the servicer. The Company no longer has any equitable or economic ownership interest in the property. The transaction resulted in a gain on forgiveness of debt of approximately \$17.8 million. The operating results of the property through the date of foreclosure have been classified as discontinued operations on a historical basis for all periods presented (See Note 3).

On March 12, 2012, the Company used available cash to repay the mortgage loan collateralized by its Bay Colony Corporate Center property located in Waltham, Massachusetts totaling \$143.9 million. The mortgage financing bore interest at a fixed rate of 6.53% per annum and was scheduled to mature on June 11, 2012. There was no prepayment penalty. The Company recognized a gain on early extinguishment of debt totaling approximately \$0.9 million related to the acceleration of the remaining balance of the historical fair value adjustment, which was the result of purchase accounting.

On April 2, 2012, the Company used available cash to repay the mortgage loan collateralized by its One Freedom Square property located in Reston, Virginia totaling \$65.1 million. The mortgage financing bore interest at a fixed rate of 7.75% per annum and was scheduled to mature on June 30, 2012. There was no prepayment penalty. The Company recognized a gain on early extinguishment of debt totaling approximately \$0.3 million related to the acceleration of the remaining balance of the historical fair value debt adjustment, which was the result of purchase accounting.

On August 29, 2012, in connection with the Company's acquisition of the development project located at 680 Folsom Street in San Francisco, California, the Company assumed the construction loan commitment collateralized by the project (See Note 3). The assumed construction loan commitment totaling \$170.0 million bears interest at a variable rate equal to LIBOR plus 3.70% per annum and matures on May 30, 2015 with two, one-year extension options, subject to certain conditions. At September 30, 2012, there were no amounts outstanding. In addition, the Company assumed an interest rate derivative which caps the one-month LIBOR index rate at a maximum of 3.00% per annum on a notional amount up to \$170.0 million and with an expiration date of May 30, 2015.

On September 4, 2012, the Company used available cash to repay the mortgage loan collateralized by its Sumner Square property located in Washington, DC totaling approximately \$23.2 million. The mortgage financing bore interest at a fixed rate of 7.35% per annum and was scheduled to mature on September 1, 2013. The Company recognized a loss on early extinguishment of debt totaling approximately \$0.3 million, which included a prepayment penalty totaling approximately \$0.2 million associated with the early repayment.

Table of Contents**6. Unsecured Senior Notes**

The following summarizes the unsecured senior notes outstanding as of September 30, 2012 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
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
10 Year Unsecured Senior Notes	4.125%	4.289%	850,000	May 15, 2021
7 Year Unsecured Senior Notes	3.700%	3.853%	850,000	November 15, 2018
11 Year Unsecured Senior Notes	3.850%	3.954%	1,000,000	February 1, 2023
Total principal			4,650,000	
Net unamortized discount			(10,783)	
Total			\$ 4,639,217	

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

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

On June 11, 2012, the Company's Operating Partnership completed a public offering of \$1.0 billion in aggregate principal amount of its 3.850% senior unsecured notes due 2023. The notes were priced at 99.779% of the principal amount to yield an effective rate (including financing fees) of 3.954% to maturity. The notes will mature on February 1, 2023, unless earlier redeemed. The aggregate net proceeds from the offering were approximately \$989.4 million after deducting underwriting discounts and transaction expenses.

On August 24, 2012, the Company's Operating Partnership used available cash to redeem the remaining \$225.0 million in aggregate principal amount of its 6.25% senior notes due 2013. The redemption price was determined in accordance with the applicable indenture and totaled approximately \$231.6 million. The redemption price included approximately \$1.5 million of accrued and unpaid interest to, but not including, the redemption date. Excluding such accrued and unpaid interest, the redemption price was approximately 102.25% of the principal amount being redeemed. The Company recognized a loss on early extinguishment of debt totaling approximately \$5.2 million, which amount included the payment of the redemption premium totaling approximately \$5.1 million.

The indenture relating to the unsecured senior notes contains certain financial restrictions and requirements, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of greater than 1.50, and (4) an unencumbered asset value of not less than 150% of unsecured debt. At September 30, 2012, the Company was in compliance with each of these financial restrictions and requirements.

Table of Contents**7. Unsecured Exchangeable Senior Notes**

The following summarizes the unsecured exchangeable senior notes outstanding as of September 30, 2012 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Exchange Rate	Principal Amount	First Optional Redemption Date by the Company	Maturity Date
3.625% Exchangeable Senior Notes	3.625%	4.037%	8.5051(2)	\$ 747,500	N/A	February 15, 2014
3.750% Exchangeable Senior Notes	3.750%	3.787%	10.0066(3)	450,000	May 18, 2013(4)	May 15, 2036
Total principal				1,197,500		
Net unamortized discount				(2,012)		
Adjustment for the equity component allocation, net of accumulated amortization				(32,533)		
Total				\$ 1,162,955		

- (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, 2012, the effective exchange price was \$134.77 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 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.
- (4) Holders may require the Operating Partnership to repurchase the notes for cash on May 18, 2013 and on May 15 of 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.

On January 10, 2012, the Company announced that holders of the 2.875% Exchangeable Senior Notes due 2037 (the Notes) issued by its Operating Partnership had the right to surrender their Notes for purchase by the Operating Partnership (the Put Right) on February 15, 2012. The opportunity to exercise the Put Right expired at 5:00 p.m., New York City time, on February 8, 2012. On January 10, 2012, the Company also announced that the Operating Partnership issued a notice of redemption to the holders of the Notes to redeem, on February 20, 2012 (the Redemption Date), all of the Notes outstanding on the Redemption Date. In connection with the redemption, holders of the Notes had the right to exchange their Notes prior to 5:00 p.m., New York City time, on February 16, 2012. Notes with respect to which the Put Right was not exercised (or with respect to which the Put Right was exercised and subsequently withdrawn prior to the withdrawal deadline) and that were not surrendered for exchange prior to 5:00 p.m., New York City time, on February 16, 2012, were redeemed by the Operating Partnership on the Redemption Date at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest thereon to, but excluding, the Redemption Date. Holders of an

Table of Contents

aggregate of \$242,735,000 of the Notes exercised the Put Right and the Operating Partnership repurchased such Notes on February 15, 2012. On February 20, 2012, the Operating Partnership redeemed the remaining \$333,459,000 of outstanding Notes at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest thereon.

8. 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 \$12.9 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, 2012, the maximum funding obligation under the guarantee was approximately \$9.8 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 John Hancock Tower property located in Boston, Massachusetts, the Company has agreed to guarantee approximately \$0.8 million related to its obligation to provide funds for certain tenant re-leasing costs. The mortgage financing matures on January 6, 2017.

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. Certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York ("767 Fifth Avenue"), are currently insured in separate insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are \$1.625 billion, including

Table of Contents

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 \$100.0 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 terrorism 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. In addition, the builders risk policy maintained for the development of 680 Folsom Street in San Francisco includes a \$20 million per occurrence and annual aggregate limit of earthquake coverage. 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. In addition, the Operating Partnership has issued a guarantee to cover liabilities of IXP in the amount of \$20.0 million.

Table of Contents

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 that 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.

9. Noncontrolling Interests

Noncontrolling interests relate to the interests in the Operating Partnership not owned by the Company and interests in consolidated property partnerships not wholly-owned by the Company. As of September 30, 2012, the noncontrolling interests consisted of 16,501,441 OP Units, 1,600,324 LTIP Units, 400,000 2011 OPP Units, 400,000 2012 OPP Units, 995,997 Series Two Preferred Units (or 1,307,083 OP Units on an as converted basis) and 1,221,527 Series Four Preferred Units (not convertible into OP Units) held by parties other than the Company.

Noncontrolling Interest Redeemable Preferred Units of the Operating Partnership

The Preferred Units at September 30, 2012 consisted of 995,997 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) 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, 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, May 12, 2011 and May 14, 2012, although no holder exercised such right. 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.

During the nine months ended September 30, 2012, 117,047 Series Two Preferred Units of the Operating Partnership were converted by the holders into 153,605 OP Units. In addition, the Company paid the accrued preferred distributions due to the holders of Preferred Units that were converted.

Table of Contents

On February 15, 2012, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.75616 per unit. On May 15, 2012, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.73151 per unit. On August 15, 2012, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.75616 per unit.

The Preferred Units at September 30, 2012 also included 1,221,527 Series Four Preferred Units, which bear a preferred distribution equal to 2.00% per annum on a liquidation preference of \$50.00 per unit and are not convertible into OP Units. In connection with the acquisition of 680 Folsom Street in San Francisco, California, the consideration paid by the Company to the seller included the issuance of 1,588,100 Series Four Preferred Units of limited partnership interest in the Company's Operating Partnership. The holders of Series Four Preferred Units have the right, subject to certain conditions to require the Operating Partnership to redeem their units for cash at the redemption price of \$50.00 per unit. On August 31, 2012, a holder redeemed 366,573 Series Four Preferred Units for cash totaling approximately \$18.3 million. The Company also has the right, subject to certain conditions, to redeem Series Four Preferred Units for cash at the redemption price of \$50.00 per unit. Due to the holders' redemption option existing outside the control of the Company, the Series Four Preferred Units are presented outside of permanent equity in the Company's Consolidated Balance Sheets.

The following table reflects the activity of the noncontrolling interests' redeemable preferred units of the Operating Partnership for the nine months ended September 30, 2012 and 2011 (in thousands):

Balance at January 1, 2012	\$ 55,652
Issuance of redeemable preferred units (Series Four Preferred Units)	79,405
Net income	2,440
Distributions	(2,440)
Redemption of redeemable preferred units (Series Four Preferred Units)	(18,329)
Conversion of redeemable preferred units (Series Two Preferred Units) to common units	(5,852)
Balance at September 30, 2012	\$ 110,876
Balance at January 1, 2011	\$ 55,652
Net income	2,497
Distributions	(2,497)
Balance at September 30, 2011	\$ 55,652

Noncontrolling Interest Common Units of the Operating Partnership

During the nine months ended September 30, 2012, 365,688 OP Units were presented by the holders for redemption (including 153,605 OP Units issued upon conversion of Series Two Preferred Units and 149,477 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, 2012, the Company had outstanding 400,000 2011 OPP Units and 400,000 2012 OPP Units (See Note 12). Prior to the measurement date (January 31, 2014 for 2011 OPP Units and February 6, 2015 for 2012 OPP Units), holders of 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 OPP Units, both vested and unvested, that 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 27, 2012, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.55 per unit, and a distribution on the 2011 OPP Units in the amount of \$0.055 per unit, to holders of record as of the close of business on December 31, 2011. On April 30, 2012, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.55 per unit, and a distribution on the 2011 OPP Units and 2012 OPP Units in the amount of \$0.055 per unit, to holders of record as of the close of business on March 30, 2012. On July 31, 2012, the Operating Partnership paid a distribution on the OP Units and LTIP Units

Table of Contents

in the amount of \$0.55 per unit, and a distribution on the 2011 OPP Units and 2012 OPP Units in the amount of \$0.055 per unit, to holders of record as of the close of business on June 29, 2012. On September 17, 2012, the Company, as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units in the amount of \$0.55 per unit and a distribution on the 2011 OPP Units and 2012 OPP Units in the amount of \$0.055 per unit, in each case payable on October 31, 2012 to holders of record as of the close of business on September 28, 2012.

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 had 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, 2012 was approximately \$2.0 billion and \$144.6 million, respectively, based on the closing price of the Company's common stock of \$110.61 per share on September 30, 2012.

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 \$(1.9) million at September 30, 2012 and approximately \$(1.1) million at December 31, 2011, are included in Noncontrolling Interests Property Partnerships on the accompanying Consolidated Balance Sheets.

10. Stockholders Equity

As of September 30, 2012, the Company had 150,856,237 shares of Common Stock outstanding.

During the nine months ended September 30, 2012, the Company utilized its \$600 million at the market (ATM) stock offering program to issue an aggregate of 2,347,500 shares of Common Stock for gross proceeds of approximately \$249.8 million and net proceeds of approximately \$247.2 million. As of September 30, 2012, approximately \$305.3 million remained available for issuance under this ATM program.

During the nine months ended September 30, 2012, the Company issued 22,823 shares of Common Stock upon the exercise of options to purchase Common Stock by certain employees.

During the nine months ended September 30, 2012, the Company issued 365,688 shares of Common Stock in connection with the redemption of an equal number of OP Units.

On January 27, 2012, the Company paid a dividend in the amount of \$0.55 per share of Common Stock to shareholders of record as of the close of business on December 31, 2011. On April 30, 2012, the Company paid a dividend in the amount of \$0.55 per share of Common Stock to shareholders of record as of the close of business on March 30, 2012. On July 31, 2012, the Company paid a dividend in the amount of \$0.55 per share of Common Stock to shareholders of record as of the close of business on June 29, 2012. On September 17, 2012, the Company's Board of Directors declared a dividend in the amount of \$0.55 per share of Common Stock payable on October 31, 2012 to shareholders of record as of the close of business on September 28, 2012.

Table of Contents**11. 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 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 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. 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, 2012		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 57,769	150,801	\$ 0.38
Discontinued operations attributable to Boston Properties, Inc.			
Net income attributable to Boston Properties, Inc.	\$ 57,769	150,801	\$ 0.38
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		1,182	
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 57,769	151,983	\$ 0.38

	For the Three Months Ended September 30, 2011		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 70,524	147,006	\$ 0.48
Discontinued operations attributable to Boston Properties, Inc.	18		
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	
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 70,542	147,622	\$ 0.48

Table of Contents

	For the Nine Months Ended September 30, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 191,997	149,823	\$ 1.28
Discontinued operations attributable to Boston Properties, Inc.	49,476		0.33
Net income attributable to Boston Properties, Inc.	\$ 241,473	149,823	\$ 1.61
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		655	(0.01)
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 241,473	150,478	\$ 1.60

	For the Nine Months Ended September 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 171,411	145,006	\$ 1.18
Discontinued operations attributable to Boston Properties, Inc.	(52)		
Net income attributable to Boston Properties, Inc.	\$ 171,359	145,006	\$ 1.18
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		619	
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 171,359	145,625	\$ 1.18

12. Stock Option and Incentive Plan

On January 25, 2012, 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 "2012 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. 2012 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 2012 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 7, 2012 to February 6, 2015, based on the average closing price of a share of the Company's common stock of \$106.69 for the five trading days prior to and including February 7, 2012. The aggregate reward that recipients of all 2012 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 24% over the full three-year measurement period (equivalent to 8% 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

Table of Contents

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 24% over the three-year measurement period (equivalent to 8% 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 24% 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 24%. 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 75%. 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 2012 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 2012 OPP Award recipients in accordance with each individual's percentage. If there is a change of control prior to February 6, 2015, 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 2012 OPP Award recipients as of that date.

Rewards earned with respect to 2012 OPP Awards (if any) will vest 25% on February 7, 2015, 25% on February 7, 2016 and 50% on February 7, 2017, 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 2012 OPP Awards will be made by the Compensation Committee. 2012 OPP Awards were issued in the form of LTIP Units prior to the determination of the outperformance pool, but will remain subject to forfeiture depending on the extent of rewards earned with respect to 2012 OPP Awards. The number of LTIP Units issued initially to recipients of the 2012 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 2012 OPP Awards are 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 2012 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

Table of Contents

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 2012 OPP Units were valued, in accordance with ASC 718 Compensation Stock Compensation, at an aggregate of approximately \$7.7 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 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 2012 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 2012 OPP Units. The ultimate reward realized on account of the OPP Award by the holders of the 2012 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 2012 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 31% and 30%, respectively; a risk free rate of 0.35%; and total dividend payments over the measurement period of \$7.28 per share.

On February 13, 2012, E. Mitchell Norville announced that he would resign as Executive Vice President, Chief Operating Officer of the Company effective on February 29, 2012. In connection with his resignation, Mr. Norville entered into a separation agreement (the Separation Agreement) with the Company. Under the Separation Agreement, the Company agreed to pay Mr. Norville cash payments totaling approximately \$1,533,333 (less applicable deductions) in addition to his cash bonus for 2011, which was \$950,000. In addition, Mr. Norville agreed to provide consulting services to the Company for at least two months following the effective date of his resignation for which he received \$20,000 per month. Under the Separation Agreement, Mr. Norville is entitled to accelerated vesting with respect to 23,502 LTIP units in the Operating Partnership and stock options to purchase 4,464 shares of common stock at an exercise price of \$92.71 and 5,117 shares of common stock at an exercise price of \$104.47. Mr. Norville will also retain approximately 36% of his 2011 outperformance award, which will remain subject to the performance-based vesting criteria originally established for the 2011 outperformance awards. Mr. Norville agreed to one-year non-competition, non-solicitation and non-interference provisions, and provided the Company with a general release of claims. The Company recognized approximately \$4.5 million of expense during the nine months ended September 30, 2012 in connection with Mr. Norville's resignation.

At the Company's 2012 annual meeting of stockholders held on May 15, 2012, the stockholders of the Company approved the Boston Properties, Inc. 2012 Stock Option and Incentive Plan (the 2012 Plan). The 2012 Plan replaces the 1997 Plan. The material terms of the 2012 Plan include, among other things: (1) the maximum number of shares of common stock reserved and available for issuance under the 2012 Plan is the sum of (i) 13,000,000 newly authorized shares, plus (ii) the number of shares available for grant under the 1997 Stock Plan immediately prior to the effective date of the 2012 Plan, plus (iii) any shares underlying grants under the 1997 Plan that are forfeited, cancelled or terminated (other than by exercise) in the future; (2) full-value awards (i.e., awards other than stock options) are multiplied by a 2.32 conversion ratio to calculate the number of shares available under the 2012 Plan that are used for each full-value award, as opposed to a 1.0 conversion ratio for each stock option awarded under the 2012 Plan; (3) shares tendered or held back for taxes will not be added back to the reserved pool under the 2012 Plan; (4) stock options may not be re-priced without stockholder approval; and (5) the term of the 2012 Plan is for ten years from the date of stockholder approval.

Table of Contents

During the nine months ended September 30, 2012, the Company issued 20,756 shares of restricted common stock, 186,007 non-qualified stock options, 174,650 LTIP Units and 400,000 2012 OPP Units to employees and non-employee directors under the 1997 Plan and 2012 Plan. Employees and directors paid \$0.01 per share of restricted common stock and \$0.25 per LTIP Unit and 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 to employees vest in four equal annual installments. Restricted stock is measured at fair value on the date of grant based on the number of shares 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, 2012 were valued at approximately \$2.2 million (\$107.31 per share weighted-average). The non-qualified stock options granted during the nine months ended September 30, 2012 had a weighted-average fair value on the date of grant of \$19.50 per option, which was computed using the Black-Scholes option-pricing model utilizing the following weighted-average assumptions: an expected life of 5.4 years, a risk-free interest rate of 0.92%, an expected price volatility of 28.4% and an expected dividend yield of 2.9%. The weighted-average exercise price of the options is \$107.23, which was the weighted-average closing price of the Company's common stock on the date of grant. The LTIP Units granted during the nine months ended September 30, 2012 were valued at approximately \$17.3 million (\$98.83 per unit fair value weighted-average) using a Monte Carlo simulation method model. The weighted-average per unit fair value of each LTIP Unit granted was estimated on the date of grant using the following assumptions: an expected life of 5.8 years, a risk-free interest rate of 0.94% and an expected price volatility of 29.1%. As the 2011 OPP Awards and 2012 OPP Awards are subject to both a service condition and a market condition, the Company recognizes the compensation expense related to the 2011 OPP Awards and 2012 OPP Awards under the graded vesting attribution method. Under the graded vesting attribution method, each portion of the award that vests at a different date is accounted for as a separate award and recognized over the period appropriate to that portion so that the compensation cost for each portion should be recognized in full by the time that portion vests. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Dividends in Excess of Earnings in the Consolidated Balance Sheets. Aggregate stock-based compensation expense associated with restricted stock, non-qualified stock options, LTIP Units, 2008 OPP Units, 2011 OPP Units and 2012 OPP Units was approximately \$6.4 million and \$5.6 million for the three months ended September 30, 2012 and 2011, respectively, and approximately \$23.8 million and \$22.7 million for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012, stock-based compensation expense includes approximately \$2.7 million consisting of the acceleration of vesting of the Company's Chief Operating Officer's stock-based compensation awards associated with his resignation. Upon the conclusion of the three-year measurement period in February 2011, the 2008 OPP Awards were not earned, the program was terminated and the Company accelerated the then remaining unrecognized compensation expense totaling approximately \$4.3 million during the nine months ended September 30, 2011. At September 30, 2012, there was \$24.4 million of unrecognized compensation expense related to unvested restricted stock and LTIP Units and \$9.4 million of unrecognized compensation expense related to unvested 2011 OPP Units and 2012 OPP Units that is expected to be recognized over a weighted-average period of approximately 2.7 years.

13. 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 Boston, New York, Princeton, San Francisco and Washington, DC. Segments by property type include: Class A Office, Office/Technical, Residential and Hotel.

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, transaction costs, interest expense, depreciation and amortization expense, gains (losses) from investments in securities, losses from early extinguishments of debt, income from unconsolidated joint ventures, discontinued operations and noncontrolling interests are not included in Net Operating Income as internal reporting addresses these items on a corporate level.

Table of Contents

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 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 (dollars in thousands):

For the three months ended September 30, 2012:

	Boston	New York	Princeton	San Francisco	Washington, DC	Total
Rental Revenue:						
Class A Office	\$ 161,479	\$ 120,270	\$ 15,234	\$ 54,137	\$ 87,119	\$ 438,239
Office/Technical	5,539			148		