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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the Quarterly Period Ended September 30, 2007**

**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

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**BOSTON PROPERTIES, INC.**

(Exact name of Registrant as specified in its Charter)

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

**04-2473675**  
(IRS Employer Id. Number)

**Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103**  
(Address of Principal Executive Offices) (Zip Code)

**(617) 236-3300**  
(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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)

**119,265,452**  
(Outstanding on November 2, 2007)

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**BOSTON PROPERTIES, INC.**  
**FORM 10-Q**  
**for the quarter ended September 30, 2007**  
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## PART I. FINANCIAL INFORMATION

## ITEM 1—Financial Statements.

**BOSTON PROPERTIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(in thousands, except for share and par value amounts)**

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Real estate, at cost	\$ 8,961,830	\$ 8,819,934
Real estate held for sale, net	—	433,492
Construction in process	629,138	115,629
Land held for future development	212,801	183,403
Less: accumulated depreciation	(1,488,077)	(1,392,055)
Total real estate	8,315,692	8,160,403
Cash and cash equivalents	1,894,198	725,788
Cash held in escrows	17,835	25,784
Tenant and other receivables (net of allowance for doubtful accounts of \$2,199 and \$2,682, respectively)	43,199	57,052
Accrued rental income (net of allowance of \$504 and \$783, respectively)	299,082	327,337
Deferred charges, net	257,469	274,079
Prepaid expenses and other assets	55,658	40,868
Investments in unconsolidated joint ventures	102,488	83,711
Total assets	<u>\$10,985,621</u>	<u>\$ 9,695,022</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Mortgage notes payable	\$ 2,644,393	\$ 2,679,462
Unsecured senior notes (net of discount of \$3,199 and \$3,525, respectively)	1,471,801	1,471,475
Unsecured exchangeable senior notes (net of discount of \$19,426 and \$0, respectively)	1,293,074	450,000
Unsecured line of credit	—	—
Accounts payable and accrued expenses	133,714	102,934
Dividends and distributions payable	96,152	857,892
Accrued interest payable	46,671	47,441
Other liabilities	198,314	239,084
Total liabilities	<u>5,884,119</u>	<u>5,848,288</u>
Commitments and contingencies	—	—
Minority interests	<u>753,620</u>	<u>623,508</u>
<b>Stockholders' equity:</b>		
Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Preferred stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$.01 par value, 250,000,000 shares authorized, 119,332,112 and 117,582,442 issued and 119,253,212 and 117,503,542 outstanding in 2007 and 2006, respectively	1,193	1,175
Additional paid-in capital	3,289,760	3,119,941
Earnings in excess of dividends	1,065,993	108,155
Treasury common stock at cost, 78,900 shares in 2007 and 2006	(2,722)	(2,722)
Accumulated other comprehensive loss	(6,342)	(3,323)
Total stockholders' equity	<u>4,347,882</u>	<u>3,223,226</u>
Total liabilities and stockholders' equity	<u>\$10,985,621</u>	<u>\$ 9,695,022</u>

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
(in thousands, except for per share amounts)				
<b>Revenue</b>				
Rental:				
Base rent	\$ 270,513	\$ 272,146	\$ 813,929	\$ 823,984
Recoveries from tenants	45,621	45,896	140,125	138,224
Parking and other	16,328	13,967	48,137	41,869
Total rental revenue	332,462	332,009	1,002,191	1,004,077
Hotel revenue	8,646	8,319	24,690	21,598
Development and management services	5,318	4,558	15,175	14,159
Interest and other	25,081	14,611	68,274	25,124
Total revenue	371,507	359,497	1,110,330	1,064,958
<b>Expenses</b>				
Real estate operating:				
Rental	114,140	111,176	341,339	333,016
Hotel	6,275	6,339	18,706	16,860
General and administrative	20,189	12,739	53,288	43,177
Interest	69,929	73,571	217,598	226,837
Depreciation and amortization	71,616	70,558	216,715	203,640
Losses from early extinguishments of debt	2,695	208	3,417	32,132
Total expenses	284,844	274,591	851,063	855,662
Income before minority interest in property partnership, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	86,663	84,906	259,267	209,296
Minority interest in property partnership	—	—	—	2,013
Income from unconsolidated joint ventures	1,390	20,200	19,623	23,167
Income before minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	88,053	105,106	278,890	234,476
Minority interest in Operating Partnership	(14,178)	(18,404)	(42,455)	(44,911)
Income before gains on sales of real estate and discontinued operations	73,875	86,702	236,435	189,565
Gains on sales of real estate, net of minority interest	168,495	17,889	788,855	604,200
Income before discontinued operations	242,370	104,591	1,025,290	793,765
Discontinued operations:				
Income from discontinued operations, net of minority interest	—	3,371	1,283	7,228
Gain on sale of real estate from discontinued operations, net of minority interest	—	—	173,899	—
Net income available to common shareholders	\$ 242,370	\$ 107,962	\$ 1,200,472	\$ 800,993
<b>Basic earnings per common share:</b>				
Income available to common shareholders before discontinued operations	\$ 2.02	\$ 0.90	\$ 8.53	\$ 6.82
Discontinued operations, net of minority interest	—	0.03	1.48	0.06
Net income available to common shareholders	\$ 2.02	\$ 0.93	\$ 10.01	\$ 6.88
Weighted average number of common shares outstanding	119,010	115,432	118,715	113,989
<b>Diluted earnings per common share:</b>				
Income available to common shareholders before discontinued operations	\$ 1.99	\$ 0.88	\$ 8.39	\$ 6.68
Discontinued operations, net of minority interest	—	0.03	1.45	0.06
Net income available to common shareholders	\$ 1.99	\$ 0.91	\$ 9.84	\$ 6.74
Weighted average number of common and common equivalent shares outstanding	120,655	117,728	120,760	116,365

The accompanying notes are an integral part of these financial statements

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in thousands)			
Net income available to common shareholders	\$ 242,370	\$ 107,962	\$ 1,200,472	\$ 800,993
Other comprehensive income (loss):				
Effective portion of interest rate contracts	(2,906)	(20,564)	(2,906)	7,551
Amortization of interest rate contracts	(98)	174	(113)	523
Other comprehensive income (loss)	(3,004)	(20,390)	(3,019)	8,074
Comprehensive income	<u>\$ 239,366</u>	<u>\$ 87,572</u>	<u>\$ 1,197,453</u>	<u>\$ 809,067</u>

The accompanying notes are an integral part of these financial statements

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

	For the nine months ended	
	September 30,	
	2007	2006
	(in thousands)	
<b>Cash flows from operating activities:</b>		
Net income available to common shareholders	\$ 1,200,472	\$ 800,993
Adjustments to reconcile net income available to common shareholders to net cash provided by operating activities:		
Depreciation and amortization	217,323	206,307
Non-cash portion of interest expense	7,057	5,231
Non-cash compensation expense	9,318	6,481
Losses from early extinguishments of debt	838	31,877
Minority interest in property partnership	—	(2,013)
Earnings in excess of distributions from unconsolidated joint ventures	(13,462)	(16,741)
Minority interest in Operating Partnership	214,330	160,492
Gains on sales of real estate	(1,134,408)	(718,431)
Change in assets and liabilities:		
Cash held in escrows	5,119	4,182
Tenant and other receivables, net	13,853	7,873
Accrued rental income, net	(30,298)	(37,212)
Prepaid expenses and other assets	(14,200)	(24,155)
Accounts payable and accrued expenses	6,892	(986)
Accrued interest payable	(770)	(2,208)
Other liabilities	(8,345)	(11,214)
Tenant leasing costs	(20,596)	(27,439)
Total adjustments	(747,349)	(417,956)
Net cash provided by operating activities	453,123	383,037
<b>Cash flows from investing activities:</b>		
Acquisitions/additions to real estate	(714,101)	(379,923)
Investments in marketable securities	—	(282,764)
Net investments in unconsolidated joint ventures	(5,315)	24,231
Net proceeds from the sale of real estate placed in escrow	—	(872,063)
Net proceeds from the sale of real estate released from escrow	—	872,063
Net proceeds from the sales of real estate	1,773,125	1,130,132
Net cash provided by investing activities	1,053,709	491,676

The accompanying notes are an integral part of these financial statements

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

	For the nine months ended September 30,	
	2007	2006
	(in thousands)	
<b>Cash flows from financing activities:</b>		
Borrowings on unsecured line of credit	260,000	195,000
Repayments of unsecured line of credit	(260,000)	(253,000)
Proceeds from mortgage notes payable	1,020,216	30,396
Repayments of mortgage notes payable	(1,122,135)	(264,157)
Proceeds from unsecured exchangeable senior notes	840,363	450,000
Proceeds from real estate financing transaction	1,610	22,462
Payments on real estate financing transactions	(8,156)	(3,665)
Dividends and distributions	(1,047,131)	(296,035)
Net proceeds from equity transactions	14,521	38,079
Contributions from minority interest holders, net	3,297	11,274
Redemption of minority interest	(35,625)	(14,891)
Deferred financing costs	(5,382)	(2,646)
Net cash used in financing activities	(338,422)	(87,183)
Net increase in cash and cash equivalents	1,168,410	787,530
Cash and cash equivalents, beginning of period	725,788	261,496
Cash and cash equivalents, end of period	<u>\$ 1,894,198</u>	<u>\$ 1,049,026</u>
<b>Supplemental disclosures:</b>		
Cash paid for interest	<u>\$ 231,938</u>	<u>\$ 228,370</u>
Interest capitalized	<u>\$ 20,627</u>	<u>\$ 4,556</u>
<b>Non-cash investing and financing activities:</b>		
Additions to real estate included in accounts payable	<u>\$ 12,922</u>	<u>\$ 15,919</u>
Dividends and distributions declared but not paid	<u>\$ 96,152</u>	<u>\$ 95,607</u>
Conversions of Minority interests to Stockholders' equity	<u>\$ 30,102</u>	<u>\$ 80,090</u>
Basis adjustment to real estate in connection with conversions of Minority interests to Stockholders' equity	<u>\$ 111,865</u>	<u>\$ 181,842</u>
Mortgage notes payable assumed in connection with the acquisition of real estate	<u>\$ 65,224</u>	<u>\$ —</u>
Marketable securities transferred in connection with the legal defeasance of mortgage note payable	<u>\$ —</u>	<u>\$ 282,764</u>
Mortgage note payable legally defeased	<u>\$ —</u>	<u>\$ 254,385</u>
Financing incurred in connection with the acquisition of real estate	<u>\$ —</u>	<u>\$ 45,559</u>
Issuance of restricted securities to employees and directors	<u>\$ 17,658</u>	<u>\$ 11,054</u>

The accompanying notes are an integral part of these financial statements

**BOSTON PROPERTIES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization**

Boston Properties, Inc. (the “Company”), a Delaware corporation, is a self-administered and self-managed real estate investment trust (“REIT”). The Company is the sole general partner of Boston Properties Limited Partnership (the “Operating Partnership”) and at September 30, 2007 owned an approximate 84.2% (83.0% at September 30, 2006) 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”).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company (“Common Stock”). In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 13).

At September 30, 2007, there was one series of Preferred Units outstanding (i.e., Series Two Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be converted into OP Units at the election of the holder thereof or the Operating Partnership in accordance with the amendment to the partnership agreement (See also Note 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, 2007, the Company owned or had interests in a portfolio of 138 commercial real estate properties (131 and 128 properties at December 31, 2006 and September 30, 2006, respectively) (the “Properties”) aggregating approximately 44.1 million net rentable square feet (approximately 43.4 million and 42.5 million net rentable square feet at December 31, 2006 and September 30, 2006, respectively), including 13 properties under construction totaling approximately 3.9 million net rentable square feet, and structured parking for approximately 32,113 vehicles containing approximately 9.9 million square feet. At September 30, 2007, the Properties consist of:

- 134 office properties, including 113 Class A office properties (including 13 properties under construction) and 21 Office/Technical properties;
- one hotel; and
- three retail properties.

The Company owns or controls undeveloped land parcels totaling approximately 542.2 acres. In addition, the Company has a 25% 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



**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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, 2007, the Value-Added Fund had investments in an office property in Chelmsford, Massachusetts and an office complex in San Carlos, California.

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

**2. Basis of Presentation and Summary of Significant Accounting Policies**

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

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's Annual Report in the Company's Form 10-K for its fiscal year ended December 31, 2006, as revised on Form 8-K filed on July 25, 2007.

**3. Real Estate Activity During the Nine Months Ended September 30, 2007**

***Acquisitions***

In January 2007, the Company acquired 6601 and 6605 Springfield Center Drive, consisting of two office/technical properties aggregating approximately 97,000 net rentable square feet located in Springfield, Virginia for an aggregate purchase price of approximately \$16.5 million. On April 11, 2007, the Company acquired an adjacent parcel of land for a purchase price of approximately \$25.6 million. The acquisitions were financed with available cash.

In January and February 2007, the Company acquired parcels of land located at 250 West 55th Street in New York City, through a majority-owned venture, for an aggregate purchase price of approximately \$228.8 million. The acquisitions were financed with a \$160.0 million mortgage loan, which bore interest at a variable

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

rate equal to LIBOR plus 0.40% per annum and was scheduled to mature in January 2009, and member capital contributions. The loan was collateralized by mortgages totaling approximately \$13.6 million. On February 26, 2007, the Company entered into an agreement to redeem the outside members' equity interest in the limited liability company that owns 250 West 55<sup>th</sup> Street for an aggregate redemption price of approximately \$23.4 million (See Note 9). On May 9, 2007, the Company used available cash to repay the mortgage loan.

On January 29, 2007, the Company acquired 103 Fourth Avenue, an approximately 62,000 net rentable square foot office/technical property located in Waltham, Massachusetts, for a purchase price of approximately \$14.3 million. The acquisition was financed with available cash.

On March 30, 2007, the Company acquired Kingstowne Towne Center, a mixed-use property located in Alexandria, Virginia, at a purchase price of approximately \$134.0 million. This property is comprised of two Class A office properties totaling approximately 307,000 net rentable square feet and a retail/movie theater complex totaling approximately 88,000 net rentable square feet. The acquisition was financed with the assumption of mortgage indebtedness totaling \$65.3 million (see Note 5) and available cash.

On March 30, 2007, the Company acquired Russia Wharf, a land parcel located in Boston, Massachusetts, for a purchase price of approximately \$105.5 million. The acquisition was financed with available cash.

On July 24, 2007, the Company acquired 701 Carnegie Center, a land parcel located in Princeton, New Jersey for a purchase price of approximately \$3.1 million with the title transferring pending subdivision approval. The purchase price was financed with available cash.

On September 27, 2007, the Company executed a contract to acquire North First Business Park located in San Jose, California, at a purchase price of approximately \$71.5 million. This property is comprised of eight office/technical properties aggregating approximately 367,000 net rentable square feet located on approximately 24 acres of land. The acquisition is subject to the satisfaction of customary closing conditions and there can be no assurance that the acquisition will be consummated on the terms currently contemplated or at all.

***Development***

During the nine months ended September 30, 2007, the Company commenced the following development projects:

- the Offices at Wisconsin Place, a Class A office project with approximately 290,000 net rentable square feet located in Chevy Chase, Maryland (through a joint venture in which the Company owns a 66.7% interest);
- 701 Carnegie Center, a Class A office project with approximately 120,000 net rentable square feet located in Princeton, New Jersey;
- South of Market, a Class A office project with approximately 225,000 net rentable square feet located in Reston, Virginia;
- 250 West 55<sup>th</sup> Street, a Class A office project with approximately 1,000,000 net rentable square feet located in New York City; and
- Russia Wharf, a mixed-use project with approximately 580,000 net rentable square feet of Class A office space and approximately 235,000 square feet of residential space for rent or for sale located in Boston, Massachusetts.

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Dispositions***

On February 15, 2007, the Company sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately \$1.28 billion in cash. 5 Times Square is a fully-leased Class A office tower that contains approximately 1,101,779 net rentable square feet. Net cash proceeds totaled approximately \$1.23 billion, resulting in a gain on sale of approximately \$605.2 million (net of minority interest share of approximately \$108.4 million). In conjunction with the sale, the Company has agreed to provide to the buyer monthly revenue support from the closing date until December 31, 2008. The aggregate amount of the revenue support payments was approximately \$1.6 million and has been recorded as a purchase price adjustment and included in Other Liabilities within the Company's Consolidated Balance Sheets. As of September 30, 2007, the remaining revenue support obligation totaled approximately \$0.2 million. As part of the transaction, the buyer has agreed to engage the Company as the property manager for 5 Times Square for a five-year term. Either party will have the right to terminate this relationship at any time after four years upon giving the other party six months advance notice. If not terminated, the agreement will automatically renew for successive one-year terms unless terminated by either party upon ninety (90) days advance notice. The Company will recognize management fees on a fair value basis over the term of the agreement. As a result, the recognized gain on sale of the property has been reduced by approximately \$4.7 million, representing the difference between the management fees to be received by the Company and the fair value of the management fees. Such amount has been deferred and recorded in Other Liabilities in the Company's Consolidated Balance Sheets and will be recognized as management services revenue over the term of the management agreement. Due to the Company's continuing involvement through an agreement with the buyer to manage the property for a fee after the sale and the financial obligations discussed above, this property has not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 11).

On March 23, 2007, the Company sold the Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts, for approximately \$231.0 million. Net cash proceeds totaled approximately \$225.6 million, resulting in a gain on sale of approximately \$162.3 million (net of minority interest share of approximately \$28.6 million). This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 11). The sale of this property was completed as part of a "like-kind exchange" under Section 1031 of the Internal Revenue Code.

On April 5, 2007, the Company sold Newport Office Park, an approximately 172,000 net rentable square foot Class A office property located in Quincy, Massachusetts, for approximately \$37.0 million. Net cash proceeds totaled approximately \$33.7 million, resulting in a gain on sale of approximately \$11.5 million (net of minority interest share of approximately \$2.1 million). This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 11).

On April 12, 2007, the Company entered into an agreement for the sale of a parcel of land located in Washington, D.C. for approximately \$33.7 million. In addition, the Company entered into a development management agreement with the buyer to develop a Class A office property on the parcel totaling approximately 165,000 net rentable square feet. The sale is subject to the satisfaction of customary closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

On August 7, 2007, the Company sold Democracy Center in Bethesda, Maryland, for approximately \$280.5 million. Democracy Center is a Class A office complex that contains an aggregate of approximately 685,000 net rentable square feet. Net cash proceeds totaled approximately \$184.5 million, after the repayment of the mortgage indebtedness of approximately \$94.6 million and closing costs of approximately \$1.4 million, resulting in a gain on sale of approximately \$168.3 million (net of minority interest share of approximately \$29.9 million). Due to the Company's continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations (See Note 11).

**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During the nine months ended September 30, 2007, the Company signed a new qualifying lease for approximately 22,000 net rentable square feet of its remaining 47,659 net rentable square foot master lease obligation related to the 2006 sale of 280 Park Avenue resulting in the recognition of approximately \$15.4 million (net of minority interest share of approximately \$2.6 million) as additional gain on sale of real estate. The Company had deferred approximately \$67.3 million of the gain on sale of 280 Park Avenue, which amount represented the maximum obligation under the master lease. As of September 30, 2007, the remaining master lease obligation totaled approximately \$26.5 million.

**4. Investments in Unconsolidated Joint Ventures**

The investments in unconsolidated joint ventures consist of the following at September 30, 2007:

<u>Entity</u>	<u>Properties</u>	<u>Nominal % Ownership</u>
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%(1)
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(2)
KEG Associates I, LLC	505 9th Street	50.0%(3)
Wisconsin Place Entities	Wisconsin Place	23.9%(3)(4)
Eighth Avenue and 46 <sup>th</sup> Street Entities	Eighth Avenue and 46 <sup>th</sup> Street	50.0%(3)
Boston Properties Office Value-Added Fund, L.P.	300 Billerica Road and One & Two Circle Star Way	25.0%(2)
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(3)

(1) This joint venture is accounted for under the equity method due to participatory rights of the outside partner.

(2) The Company's economic ownership can increase based on the achievement of certain return thresholds.

(3) These properties are not in operation (i.e., under construction or assembled land).

(4) Represents the Company's effective ownership interest. The Company has a 66.67%, 5% and 0% interest in the office, retail and residential joint venture entities, respectively, which each own a 33.33% interest in the entity developing and owning the land and infrastructure of the project.

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

On March 29, 2007, the Wisconsin Place joint venture entity that owns and is developing the retail component of the project (the "Retail Entity") (a joint venture entity in which the Company owns a 5% interest) obtained construction financing totaling \$66.0 million collateralized by the retail property. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.375% per annum and matures on March 29, 2010 with two, one-year extension options. On March 29, 2007, the Wisconsin Place joint venture entity that owns and is developing the land and infrastructure components of the project (the "Land and Infrastructure Entity") (a joint venture entity in which the Company owns an effective interest of approximately 23.89%) executed an amendment to its construction loan agreement. The construction financing consisted of a \$96.5 million commitment, bearing interest at a per annum variable rate equal to LIBOR plus 1.50% and maturing on March 11, 2009. The outstanding balance on the construction loan was approximately \$53.6 million on the \$96.5 million commitment. The amended agreement provides for a reduction in the loan commitment amount to \$69.1 million. The reduction relates to the repayment of the retail portion of the outstanding balance totaling approximately \$15.9 million and an additional reduction in the borrowing capacity of approximately \$11.5 million with a corresponding release of collateral in conjunction with the retail entity obtaining new construction financing.

**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

On June 1, 2007, the Company's Value-Added Fund sold Worldgate Plaza located in Herndon, Virginia for approximately \$109.0 million. Worldgate Plaza is an office complex consisting of approximately 322,000 net rentable square feet. Net cash proceeds totaled approximately \$50.5 million, of which the Company's share was approximately \$20.3 million, after the repayment of the mortgage indebtedness of \$57.0 million and closing costs of approximately \$1.5 million, resulting in a gain on sale of approximately \$32.8 million. The Company's share of the gain on sale was approximately \$15.5 million, which amount reflects the achievement of certain return thresholds as provided for in the joint venture agreement. The Company's share of the gain on sale has been included in Income from Unconsolidated Joint Ventures in the accompanying Consolidated Statements of Operations. In connection with the repayment of the mortgage indebtedness on the property, the joint venture recognized a loss from early extinguishment of debt totaling approximately \$0.1 million, consisting of the write-off of unamortized deferred financing costs. The mortgage loan bore interest at a variable rate equal to LIBOR plus 0.89% per annum and was scheduled to mature on December 1, 2007.

On June 22, 2007, a joint venture in which the Company has a 50% interest entered into agreements to complete the assemblage for its development site at Eighth Avenue and 46th Street in New York, New York consisting of an approximately 840,000 net rentable square foot Class A office property.

On July 16, 2007, the Company entered into a joint venture with an unrelated third party to develop Annapolis Junction, a Class A office complex aggregating approximately 425,000 net rentable square feet located in Anne Arundel County, Maryland. The joint venture partner contributed the land for a 50% interest in the joint venture and the Company will contribute cash of approximately \$14.9 million for its 50% interest. The joint venture has commenced construction on an approximately 117,600 net rentable square foot Class A office property on the site. On September 13, 2007, the joint venture entity obtained construction financing totaling \$45.5 million. The construction financing bears interest at a variable rate equal to LIBOR plus 1.20% per annum and matures in September 2010, with two, one-year extension options.

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

	September 30, 2007	December 31, 2006
	(in thousands)	
<b>ASSETS</b>		
Real estate and development in process, net	\$ 789,485	\$ 760,139
Other assets	100,745	87,759
Total assets	<u>\$ 890,230</u>	<u>\$ 847,898</u>
<b>LIABILITIES AND MEMBERS'/PARTNERS' EQUITY</b>		
Mortgage and notes payable(1)	\$ 627,494	\$ 630,254
Other liabilities	20,355	36,991
Members'/Partners' equity	242,381	180,653
Total liabilities and members'/partners' equity	<u>\$ 890,230</u>	<u>\$ 847,898</u>
Company's share of equity	\$ 99,875	\$ 81,053
Basis differentials(2)	2,613	2,658
Carrying value of the Company's investments in unconsolidated joint ventures	<u>\$ 102,488</u>	<u>\$ 83,711</u>

- (1) The Company and its third-party joint venture partners in the Wisconsin Place Entities have guaranteed the seller financing totaling \$7.5 million related to the acquisition of the land by the Land and Infrastructure Entity. The fair value of the Company's stand-ready obligations related to the issuance of these guarantees is immaterial.

**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
	(in thousands)		(in thousands)	
Total revenue	\$ 22,796	\$ 25,846	\$ 71,802	\$ 77,650
Expenses				
Operating	8,176	7,699	25,700	24,786
Interest	7,423	8,856	23,945	26,459
Depreciation and amortization	5,215	5,937	16,039	17,990
Loss from early extinguishment of debt	—	205	146	205
Total expenses	20,814	22,697	65,830	69,440
Income before gain on sale of real estate	1,982	3,149	5,972	8,210
Gain on sale of real estate	—	51,395	32,777	51,395
Net income	\$ 1,982	\$ 54,544	\$ 38,749	\$ 59,605
Company's share of net income	\$ 1,390	\$ 20,200	\$ 19,623	\$ 23,167

**5. Mortgage Notes Payable**

On January 9, 2007, in connection with the acquisition of land parcels located at or adjacent to 250 West 55th Street in New York City, the Company obtained financing totaling \$160.0 million. The loan was collateralized by mortgages totaling approximately \$13.6 million. The mortgage loan bore interest at a variable rate equal to LIBOR plus 0.40% per annum and was scheduled to mature on January 9, 2009 with two, six-month extension options. On May 9, 2007, the Company used available cash to repay the mortgage loan.

On February 12, 2007, the Company refinanced its mortgage loan collateralized by 599 Lexington Avenue located in New York City. The new mortgage financing totaling \$750.0 million bears interest at a fixed interest rate of 5.57% per annum and matures on March 1, 2017. On December 19, 2006, the Company had terminated its forward-starting interest rate swap contracts and received approximately \$10.9 million, which amount will reduce the Company's interest expense over the ten-year term of the financing, resulting in an effective interest rate of 5.38% per annum for the financing. The net proceeds of the new loan were used to refinance the \$225.0 million mortgage loan on 599 Lexington Avenue and the \$475.0 million mortgage loan on Times Square Tower. In connection with the refinancing, the lien of the Times Square Tower mortgage was spread to 599 Lexington Avenue and released from Times Square Tower so that Times Square Tower is no longer encumbered by any mortgage debt. The Times Square Tower mortgage loan bore interest at a variable rate equal to LIBOR plus 0.50% per annum and was scheduled to mature on July 9, 2008. There was no prepayment penalty associated with the repayment. The Company recognized a loss from early extinguishment of debt totaling approximately \$0.7 million consisting of the write-off of unamortized deferred financing costs.

In connection with the acquisition of Kingstowne Towne Center in Alexandria, Virginia on March 30, 2007, the Company assumed two mortgage loans collateralized by the properties aggregating approximately \$65.3 million. Pursuant to the provisions of Financial Accounting Standards Board's ("FASB") Statement of Financial

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Accounting Standards (“SFAS”) No. 141 “Business Combinations” (“SFAS No. 141”), the assumed mortgage loans of approximately \$44.9 million and \$20.4 million, which bear contractual interest at fixed rates of 5.99% and 5.96% and mature on January 1, 2016 and May 5, 2013, respectively, were recorded at their fair values of approximately \$46.2 million and \$20.8 million, respectively, using an effective interest rate of 5.50% per annum.

On May 17, 2007, the Company obtained mortgage financing totaling \$25.0 million collateralized by its Montvale Center property located in Gaithersburg, Maryland. Montvale Center is a Class A office property consisting of approximately 123,000 net rentable square feet. The mortgage financing requires interest-only payments at a fixed rate equal to 5.93% per annum until maturity and matures on June 6, 2012.

On August 6, 2007, the Company used available cash to repay the mortgage loan collateralized by its Embarcadero Center Four property located in San Francisco, California totaling approximately \$131.2 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.79% per annum and was scheduled to mature on February 1, 2008.

In conjunction with the sale of Democracy Center in Bethesda, Maryland on August 7, 2007, the Company repaid the mortgage financing collateralized by the property totaling approximately \$94.6 million. The Company paid a prepayment fee of approximately \$2.6 million associated with the repayment. The Company recognized a loss from early extinguishment of debt totaling approximately \$2.7 million consisting of the prepayment fee and the write-off of unamortized deferred financing costs. The mortgage loan bore interest at a fixed rate equal to 7.05% per annum and was scheduled to mature on April 1, 2009.

On July 27, 2007, the Company commenced an interest rate hedging program for its expected financing activity in 2008. The Company has since entered into nine treasury locks based on a weighted-average 10-year treasury rate of 4.74% per annum on notional amounts aggregating \$325.0 million. The treasury locks mature on April 1, 2008. In addition, the Company has entered into four forward-starting interest rate swap contracts to lock the 10-year LIBOR swap rate on notional amounts aggregating \$125.0 million at a weighted-average forward-starting 10-year swap rate of 5.21% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the swap contracts effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.53% per annum. The swap contracts go into effect on July 31, 2008 and expire on July 31, 2018. The contracts have effectively fixed the 10-year treasury rate at a weighted average interest rate of 4.68% per annum on notional amounts aggregating \$450.0 million. The Company entered into the treasury locks and interest rate swap contracts designated and qualifying as cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the hedged rate in contemplation of obtaining ten-year fixed-rate financings in 2008. SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”), as amended and interpreted, establishes accounting and reporting standards for derivative instruments. The Company has formally documented all of its relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses and documents, both at the hedging instrument’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. All components of the treasury locks and forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. On September 27, 2007, the Company entered into an interest rate swap to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of \$96.7 million. The interest rate swap goes into effect on October 22, 2007 and expires on October 29, 2008. The Company has recorded the changes in fair value of the treasury lock and swap contracts related to the effective portion totaling approximately \$2.9 million in Accumulated Other Comprehensive Loss within the Company’s Consolidated Balance Sheets. The Company expects that within the next twelve months it will reclassify into earnings approximately \$0.2 million of the amounts recorded within Accumulated Other Comprehensive Loss relating to the treasury locks and forward-starting interest rate swap contracts.

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**6. Unsecured Exchangeable Senior Notes**

On February 6, 2007, the Company's Operating Partnership completed an offering of \$862.5 million in aggregate principal amount (including \$112.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 2.875% exchangeable senior notes due 2037. The notes were priced at 97.433333% of their face amount, resulting in an effective interest rate of approximately 3.438% per annum and net proceeds to the Company of approximately \$840.0 million. The notes mature on February 15, 2037, unless earlier repurchased, exchanged or redeemed.

Upon the occurrence of specified events, holders of the notes may exchange their notes prior to the close of business on the scheduled trading day immediately preceding February 20, 2012 into cash and, at the Operating Partnership's option, shares of the Company's common stock at an initial exchange rate of 6.6090 shares per \$1,000 principal amount of notes (or an initial exchange price of approximately \$151.31 per share of the Company's common stock). On and after February 20, 2012, the notes will be exchangeable at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date at the option of the holder at the applicable exchange rate. The initial exchange rate is subject to adjustment in certain circumstances.

Prior to February 20, 2012, the Operating Partnership may not redeem the notes except to preserve the Company's status as a REIT. On or after February 20, 2012, the Operating Partnership may redeem all or a portion of the notes for cash at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Note holders may require the Operating Partnership to repurchase all or a portion of the notes on February 15 of 2012, 2017, 2022, 2027 and 2032 at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the repurchase date. The Operating Partnership will pay cash for all notes so repurchased.

If the Company undergoes a "fundamental change," note holders will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change purchase date. The Operating Partnership will pay cash for all notes so purchased. In addition, if a fundamental change occurs prior to February 20, 2012, the Operating Partnership will increase the exchange rate for a holder who elects to exchange its notes in connection with such a fundamental change under certain circumstances. The notes are senior unsecured obligations of the Operating Partnership and will rank equally in right of payment to all existing and future senior unsecured indebtedness and senior to any future subordinated indebtedness of the Operating Partnership. The notes will effectively rank junior in right of payment to all existing and future secured indebtedness of the Operating Partnership. The notes will be structurally subordinated to all liabilities of the subsidiaries of the Operating Partnership.

In connection with the closing, the Company and the Operating Partnership entered into a Registration Rights Agreement (the "Registration Rights Agreement") with the initial purchasers, under which the Company and the Operating Partnership agreed, for the benefit of the holders of the notes, to file with the Securities and Exchange Commission and maintain a shelf registration statement providing for the sale by the holders of the notes and the Company's common stock, if any, issuable upon exchange of the notes. The Company and the Operating Partnership will be required to pay liquidated damages in the form of specified additional interest to the holders of the notes if they fail to comply with these obligations; provided that the Operating Partnership will not be required to pay liquidated damages with respect to any note after it has been exchanged for any of the Company's common stock. On March 13, 2007, the Company and the Operating Partnership filed with the SEC a registration statement covering the resale of the notes and shares of common stock issuable upon exchange of the notes. The registration statement was declared effective by the SEC on April 20, 2007.



**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**7. Unsecured Line of Credit**

On August 3, 2006, the Company modified its \$605.0 million unsecured revolving credit facility (the “Unsecured Line of Credit”) by extending the maturity date from October 30, 2007 to August 3, 2010, with a provision for a one-year extension at the option of the Company, subject to certain conditions, and by reducing the per annum variable interest rate on outstanding balances from Eurodollar plus 0.65% to Eurodollar plus 0.55% per annum. The Unsecured Line of Credit is a recourse obligation of the Company’s Operating Partnership. Under the Unsecured Line of Credit, a facility fee equal to 15 basis points per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in the Operating Partnership’s unsecured debt ratings. Effective March 22, 2007, the per annum variable interest rate was reduced to Eurodollar plus 0.475% and the facility fee was reduced to 12.5 basis points per annum as a result of an increase in the Operating Partnership’s unsecured debt rating. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a negotiated LIBOR-based rate. The Company had an outstanding balance on the Unsecured Line of Credit of \$225.0 million at December 31, 2006, which was collateralized by the Company’s 599 Lexington Avenue property and therefore was included in Mortgage Notes Payable in the Company’s Consolidated Balance Sheets. On February 12, 2007, the Company repaid the \$225.0 million draw that was collateralized by the Company’s 599 Lexington Avenue. As of September 30, 2007, there were no outstanding borrowings under the Unsecured Line of Credit

The terms of the Unsecured Line of Credit require that the Company maintain a number of customary financial and other covenants on an ongoing basis, including: (1) a leverage ratio not to exceed 60%, however, the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an unsecured debt leverage ratio not to exceed 60%, however, the unsecured debt leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (5) a minimum net worth requirement, (6) an unsecured debt interest coverage ratio of at least 1.75 and (7) limitations on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties. At September 30, 2007, the Company was in compliance with each of these financial and other covenant requirements.

**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 \$28.4 million related to lender and development requirements.

The Company and its third-party joint venture partners have guaranteed the seller financing totaling \$7.5 million related to the acquisition of land by WP Project Developer LLC, the Land and Infrastructure Entity of the Wisconsin Place joint venture entities.

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.

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Insurance**

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act, or TRIA, was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) through December 31, 2004, which date was extended to December 31, 2005 by the United States Department of Treasury on June 18, 2004 and which date was further extended to December 31, 2007 by the Terrorism Risk Insurance Extension Act of 2005 (the “TRIA Extension Act”). TRIA expires on December 31, 2007, and the Company cannot currently anticipate whether it will be extended. Effective as of March 1, 2007, the Company’s property insurance program per occurrence limits were increased from \$800 million to \$900 million, including (i) coverage for “certified” acts of terrorism by TRIA of \$900 million per occurrence and (ii) coverage for “non-certified” acts of terrorism by TRIA of \$500 million per occurrence, and an additional \$400 million of coverage for “non-certified” acts of terrorism by TRIA on a per occurrence and annual aggregate basis. The Company also carries nuclear, biological, chemical and radiological terrorism insurance coverage (“NBCR Coverage”) for “certified” acts of terrorism as defined by TRIA, which is provided by IXP, LLC as a direct insurer. Effective as of March 1, 2007, the Company extended the NBCR Coverage to March 1, 2008, excluding the Company’s Value-Added Fund properties. Effective as of March 1, 2007, the per occurrence limit for NBCR Coverage was increased from \$800 million to \$900 million. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a “program trigger.” Under the TRIA Extension Act (a) the program trigger is \$100 million from January 1, 2007 through December 31, 2007 and (b) the coinsurance is 15% from January 1, 2007 through December 31, 2007. The Company may elect to terminate the NBCR Coverage if there is a change in its portfolio or for any other reason. In the event TRIA is not extended beyond December 31, 2007 (i) the NBCR coverage provided by IXP will terminate and (ii) the Company will have some gaps in its coverage for acts of terrorism that would have constituted both “certified” and “non-certified” acts of terrorism had TRIA not expired and the Company may obtain the right to replace a portion of such coverage. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain insurance in amounts and on terms that are commercially reasonable.

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

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

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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. If the Company experiences a loss and IXP is required to pay under its insurance policy, the Company would ultimately record the loss to the extent of IXP's required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

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

**9. Minority Interests**

Minority interests relate to the interest in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of September 30, 2007, the minority interest in the Operating Partnership consisted of 20,285,974 OP Units, 676,192 LTIP Units and 1,113,044 Series Two Preferred Units (or 1,460,688 OP Units on an as converted basis) held by parties other than the Company.

The minority interests in property partnerships consist of the outside equity interests in ventures that are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in these ventures that are not owned by the Company, totaling approximately \$5.1 million at September 30, 2007, are included in Minority Interests on the accompanying Consolidated Balance Sheets.

On February 26, 2007, the Company entered into an agreement to redeem the outside members' equity interest in the limited liability company that owns 250 West 55<sup>th</sup> Street for an aggregate redemption price of approximately \$23.4 million. The Company paid \$17.0 million on February 26, 2007, with \$3.0 million payable on February 26, 2008 and the balance of approximately \$3.4 million payable in monthly installments from March 1, 2007 through August 1, 2009. The redemption was accounted for using the purchase method in accordance with SFAS No. 141 "Business Combinations" ("SFAS No. 141"). The difference between the aggregate book value of the outside members' equity interest totaling approximately \$10.6 million and the purchase price increased the recorded value of the property's net assets.

On May 31, 2007 and June 15, 2007, the Company paid an aggregate of \$25.0 million in connection with the agreement entered into in May 2006 to redeem the outside members' equity interests in the limited liability company that owns Citigroup Center. The remaining unpaid redemption price, which is to be paid on May 31, 2008, is reflected at its fair value in Other Liabilities in the Company's Consolidated Balance Sheets and totaled \$24.0 million at September 30, 2007.

During the nine months ended September 30, 2007, 606,186 Series Two Preferred Units of the Operating Partnership were converted by the holders into 795,520 OP Units. In addition, the Company paid the accrued preferred distributions due to the holders of Preferred Units that were converted.

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During the nine months ended September 30, 2007, 1,327,468 OP Units (including 794,768 OP Units issued upon conversion of the Series Two Preferred Units discussed above) were presented by the holders for redemption and were redeemed by the Company in exchange for an equal number of shares of Common Stock. The aggregate book value of the OP Units that were redeemed, as measured for each OP Unit on the date of its redemption, was approximately \$30.1 million. The difference between the aggregate book value and the purchase price of these OP Units was approximately \$111.9 million, which increased the recorded value of the Company's net assets.

The Preferred Units at September 30, 2007 consist solely of 1,113,044 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) an increasing rate, ranging from 5.00% to 7.00% per annum (7.00% for the nine months ended September 30, 2007 and 2006) on a liquidation preference of \$50.00 per unit, and are convertible into OP Units at a rate of \$38.10 per Preferred Unit (1.312336 OP Units for each Preferred Unit). Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

On January 30, 2007, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.68 per unit to holders of record as of the close of business on December 29, 2006. In addition, the Operating Partnership paid a special cash distribution on the OP Units and LTIP Units in the amount of \$5.40 per unit to holders of record as of the close of business on December 29, 2006. On April 30, 2007, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.68 per unit to holders of record as of the close of business on March 30, 2007. On July 31, 2007, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.68 per unit to holders of record as of the close of business on June 29, 2007.

Holders of Series Two Preferred Units participated in the \$5.40 per unit special cash distribution on an as-converted basis in connection with their regular May 2007 distribution payment as provided for in the Operating Partnership's partnership agreement. At December 31, 2006, the Company had accrued approximately \$12.2 million related to the \$5.40 per unit special cash distribution payable to holders of the Series Two Preferred Units. During the nine months ended September 30, 2007, the Company recognized an adjustment of approximately \$3.1 million to the special cash distribution accrual and allocation of earnings to the Series Two Preferred Units, as a result of conversions of Series Two Preferred Units, which amount has been reflected in Minority Interest in Operating Partnership within the Consolidated Statements of Operations.

On February 15, 2007, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.89239 per unit. On May 15, 2007, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$7.979 per unit, which amount included the impact of the special cash distribution on the OP Units and LTIP Units declared by Boston Properties, Inc., as general partner of the Operating Partnership, on December 15, 2006 and paid on January 30, 2007. On August 15, 2007, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of \$0.89239 per unit.

On September 17, 2007, Boston Properties, Inc., as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units in the amount of \$0.68 per unit payable on October 31, 2007 to holders of record as of the close of business on September 28, 2007.

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

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. The value of the OP Units (not owned by the Company and including LTIP Units assuming that all conditions have been met for the conversion thereof) and Series Two Preferred Units had such units been redeemed at September 30, 2007 was approximately \$2,178.0 million and \$151.8 million, respectively, based on the closing price of the Company's common stock of \$103.90 per share on September 28, 2007.

**10. Stockholders' Equity**

As of September 30, 2007, the Company had 119,253,212 shares of Common Stock outstanding.

During the nine months ended September 30, 2007, the Company issued 1,327,468 shares of its Common Stock in connection with the redemption of an equal number of OP Units.

During the nine months ended September 30, 2007, the Company issued 425,283 shares of its Common Stock upon the exercise of options to purchase Common Stock by certain employees.

On January 30, 2007, the Company paid a dividend in the amount of \$0.68 per share of Common Stock to shareholders of record as of the close of business on December 29, 2006. In addition, the Company paid a special cash dividend of \$5.40 per share of Common Stock to shareholders of record as of the close of business on December 29, 2006. On April 30, 2007, the Company paid a dividend in the amount of \$0.68 per share of Common Stock to shareholders of record as of the close of business on March 30, 2007. On July 31, 2007, the Company paid a dividend in the amount of \$0.68 per share of Common Stock to shareholders of record as of the close of business on June 29, 2007.

On September 17, 2007, the Company's Board of Directors declared a dividend in the amount of \$0.68 per share of Common Stock payable on October 31, 2007 to shareholders of record as of the close of business on September 28, 2007.

**11. Discontinued Operations**

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

During the nine months ended September 30, 2007, the Company sold the following operating properties:

- 5 Times Square, a Class A office tower that contains approximately 1,101,779 net rentable square feet located in New York City;
- The Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts;
- Newport Office Park, a Class A office property that contains approximately 172,000 net rentable square feet located in Quincy, Massachusetts; and
- Democracy Center, a Class A office complex that contains an aggregate of approximately 685,000 net rentable square feet located in Bethesda, Maryland.

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During the year ended December 31, 2006, the Company sold 280 Park Avenue, a Class A office property totaling approximately 1,179,000 net rentable square feet located in midtown Manhattan.

Due to the Company's continuing involvement in the management, for a fee, of Democracy Center, 280 Park Avenue and 5 Times Square through agreements with the buyers and other financial obligations to the buyers, Democracy Center, 280 Park Avenue and 5 Times Square have not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. As a result, the gains on sales related to Democracy Center, 5 Times Square and 280 Park Avenue have been reflected under the caption "Gains on sales of real estate, net of minority interest," in the Consolidated Statements of Operations. The Company has presented the other properties listed above as discontinued operations in its Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006, as applicable.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gains on sales of real estate from discontinued operations (net of minority interest) for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2007	2006	2007	2006
Total revenue	\$ —	\$ 12,963	\$ 9,222	\$ 33,955
Operating expenses	—	7,978	7,110	22,710
Depreciation and amortization	—	990	608	2,667
Minority interest in Operating Partnership	—	624	221	1,350
Income from discontinued operations (net of minority interest)	<u>\$ —</u>	<u>\$ 3,371</u>	<u>\$ 1,283</u>	<u>\$ 7,228</u>
Realized gains on sales of real estate	\$ —	\$ —	\$ 204,623	\$ —
Minority interest in Operating Partnership	—	—	(30,724)	—
Realized gains on sales of real estate (net of minority interest)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 173,899</u>	<u>\$ —</u>

The Company's application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2007 as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

**12. Earnings Per Share**

Earnings per share ("EPS") has been computed pursuant to the provisions of SFAS No. 128. The following table provides a reconciliation of both the net income and the number of common shares used in the computation of basic EPS, which is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. During 2004, the Company adopted EITF 03-6 "Participating Securities and the Two-Class Method under FASB 128" ("EITF 03-6"), which provides further guidance on the definition of participating securities. Pursuant to EITF 03-6, the Operating Partnership's Series Two Preferred Units, which are reflected as Minority Interests in the Company's Consolidated Balance Sheets, are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. The terms of the Series Two Preferred Units enable the holders to obtain OP Units of the Operating Partnership, as well as Common Stock of

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

the Company. Accordingly, for the reporting periods in which the Operating Partnership's net income is in excess of distributions paid on the OP Units, LTIP Units and Series Two Preferred Units, such income is allocated to the OP Units, LTIP Units and Series Two Preferred Units in proportion to their respective interests and the impact is included in the Company's consolidated basic and diluted earnings per share computation due to its holding of the Operating Partnership's securities. For the three months ended September 30, 2007 and 2006, approximately \$2.0 million and \$0.7 million, respectively, were allocated to the Series Two Preferred Units in excess of distributions paid during the reporting period and are included in the Company's computation of basic and diluted earnings per share. For the nine months ended September 30, 2007 and 2006, approximately \$12.3 million and \$17.0 million, respectively, were allocated to the Series Two Preferred Units in excess of distributions paid during the reporting period and are included in the Company's computation of basic and diluted earnings per share. 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.

	<b>For the three months ended September 30, 2007</b>		
	<u>Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
	<small>(in thousands, except for per share amounts)</small>		
<b>Basic Earnings:</b>			
Income available to common shareholders before allocation of undistributed earnings of Series Two Preferred Units	\$ 242,370	119,010	\$ 2.04
Allocation of undistributed earnings of Series Two Preferred Units	<u>(1,962)</u>	<u>—</u>	<u>(0.02)</u>
Net income available to common shareholders	240,408	119,010	2.02
<b>Effect of Dilutive Securities:</b>			
Stock Based Compensation	—	1,645	(0.03)
<b>Diluted Earnings:</b>			
Net income	<u>\$ 240,408</u>	<u>120,655</u>	<u>\$ 1.99</u>
	<b>For the three months ended September 30, 2006</b>		
	<u>Income</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per Share</u> <u>Amount</u>
	<small>(in thousands, except for per share amounts)</small>		
<b>Basic Earnings:</b>			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings of Series Two Preferred Units	\$ 104,591	115,432	\$ 0.91
Discontinued operations, net of minority interest	3,371	—	0.03
Allocation of undistributed earnings of Series Two Preferred Units	<u>(652)</u>	<u>—</u>	<u>(0.01)</u>
Net income available to common shareholders	107,310	115,432	0.93
<b>Effect of Dilutive Securities:</b>			
Stock Based Compensation	—	2,296	(0.02)
<b>Diluted Earnings:</b>			
Net income	<u>\$ 107,310</u>	<u>117,728</u>	<u>\$ 0.91</u>

**BOSTON PROPERTIES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

	For the nine months ended September 30, 2007		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
<b>Basic Earnings:</b>			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings of Series Two Preferred Units	\$ 1,025,290	118,715	\$ 8.63
Discontinued operations, net of minority interest	175,182	—	1.48
Allocation of undistributed earnings of Series Two Preferred Units	(12,301)	—	(0.10)
Net income available to common shareholders	<u>1,188,171</u>	<u>118,715</u>	<u>10.01</u>
<b>Effect of Dilutive Securities:</b>			
Stock Based Compensation	—	1,808	(0.15)
Exchangeable Senior Notes	—	237	(0.02)
<b>Diluted Earnings:</b>			
Net income	<u>\$ 1,188,171</u>	<u>120,760</u>	<u>\$ 9.84</u>
	For the nine months ended September 30, 2006		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
<b>Basic Earnings:</b>			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings of Series Two Preferred Units	\$ 793,765	113,989	\$ 6.97
Discontinued operations, net of minority interest	7,228	—	0.06
Allocation of undistributed earnings of Series Two Preferred Units	(16,959)	—	(0.15)
Net income available to common shareholders	<u>784,034</u>	<u>113,989</u>	<u>6.88</u>
<b>Effect of Dilutive Securities:</b>			
Stock Based Compensation	—	2,376	(0.14)
<b>Diluted Earnings:</b>			
Net income	<u>\$ 784,034</u>	<u>116,365</u>	<u>\$ 6.74</u>

### 13. Stock Option and Incentive Plan

At the Company's 2007 annual meeting of stockholders held on May 15, 2007, the Company's stockholders approved an amendment and restatement of the Company's 1997 Stock Option and Incentive Plan (the "Plan") that, among other things, (1) increased the limit on full value shares (i.e., awards other than stock options) that may be issued under the Plan by 2,500,000 shares, (2) extended the term of the Plan to May 15, 2017 and (3) added provisions that allow the Company to qualify certain grants under the Plan as "performance-based compensation" under Section 162(m) of the Internal Revenue Code.

During the nine months ended September 30, 2007, the Company issued 6,536 shares of restricted stock and 156,161 LTIP Units under its stock option and incentive plan. The shares of restricted stock were valued at approximately \$0.8 million (\$125.46 per share weighted-average). The LTIP Units were valued at approximately



**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

\$18.0 million (\$115.47 per unit weighted-average fair value) using an option pricing model in accordance with the provisions of SFAS No. 123R. The per unit fair value of each LTIP Unit granted was estimated on the date of grant using the following assumptions: an expected life of 5.3 years, a risk-free interest rate of 4.82% and an expected price volatility of 18.0%. An LTIP Unit is generally the economic equivalent of a share of restricted stock in the Company. The aggregate value of the LTIP Units is included in Minority Interests in the Consolidated Balance Sheets. The restricted stock and LTIP Units granted to employees between January 1, 2004 and November 2006 vest over a five-year term. Grants of restricted stock and LTIP Units made in and after November 2006 vest in four equal annual installments. Restricted stock and LTIP Units are measured at fair value on the date of grant based on the number of shares or units granted, as adjusted for forfeitures and the price of the Company's Common Stock on the date of grant as quoted on the New York Stock Exchange. Such value is recognized as an expense ratably over the corresponding employee service period. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Earnings in Excess of Dividends in the Consolidated Balance Sheets. Stock-based compensation expense associated with restricted stock and LTIP Units was approximately \$2.8 million and \$1.8 million for the three months ended September 30, 2007 and 2006, respectively, and \$8.6 million and \$5.9 million for the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, there was \$28.3 million of unrecognized compensation cost related to unvested restricted stock and LTIP Units that is expected to be recognized over a weighted-average period of approximately 2.9 years.

**14. Segment Information**

The Company's segments are based on the Company's method of internal reporting which classifies its operations by both geographic area and property type. The Company's segments by geographic area are Greater Boston, Greater Washington, D.C., Midtown Manhattan, Greater San Francisco and New Jersey. Segments by property type include: Class A Office, Office/Technical 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, interest expense, depreciation and amortization expense, minority interest in property partnership, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate (net of minority interest), income from discontinued operations (net of minority interest), gains on sales of real estate from discontinued operations (net of minority interest) and losses from early extinguishments of debt are not included in Net Operating Income as the internal reporting addresses these items on a corporate level.

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

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Information by geographic area and property type (dollars in thousands):

Three months ended September 30, 2007 (dollars in thousands):

	<u>Greater Boston</u>	<u>Greater Washington, D.C.</u>	<u>Midtown Manhattan</u>	<u>Greater San Francisco</u>	<u>New Jersey</u>	<u>Total</u>
<b>Rental Revenue:</b>						
Class A	\$ 85,144	\$ 60,630	\$108,596	\$ 50,592	\$ 16,604	\$321,566
Office/Technical	6,744	4,152	—	—	—	10,896
Hotel	8,646	—	—	—	—	8,646
<b>Total</b>	<u>100,534</u>	<u>64,782</u>	<u>108,596</u>	<u>50,592</u>	<u>16,604</u>	<u>341,108</u>
% of Total	29.47%	18.99%	31.84%	14.83%	4.87%	100.0%
<b>Real Estate Operating Expenses:</b>						
Class A	32,642	17,455	34,318	19,495	7,317	111,227
Office/Technical	2,009	904	—	—	—	2,913
Hotel	6,275	—	—	—	—	6,275
<b>Total</b>	<u>40,926</u>	<u>18,359</u>	<u>34,318</u>	<u>19,495</u>	<u>7,317</u>	<u>120,415</u>
% of Total	33.99%	15.24%	28.50%	16.19%	6.08%	100.0%
<b>Net Operating Income</b>	<u>\$ 59,608</u>	<u>\$ 46,423</u>	<u>\$ 74,278</u>	<u>\$ 31,097</u>	<u>\$ 9,287</u>	<u>\$220,693</u>
% of Total	27.00%	21.04%	33.66%	14.09%	4.21%	100.0%

Three months ended September 30, 2006 (dollars in thousands):

	<u>Greater Boston</u>	<u>Greater Washington, D.C.</u>	<u>Midtown Manhattan</u>	<u>Greater San Francisco</u>	<u>New Jersey</u>	<u>Total</u>
<b>Rental Revenue:</b>						
Class A	\$77,476	\$ 56,489	\$123,675	\$ 47,839	\$ 16,075	\$321,554
Office/Technical	6,518	3,937	—	—	—	10,455
Hotel	8,319	—	—	—	—	8,319
<b>Total</b>	<u>92,313</u>	<u>60,426</u>	<u>123,675</u>	<u>47,839</u>	<u>16,075</u>	<u>340,328</u>
% of Total	27.12%	17.76%	36.34%	14.06%	4.72%	100.0%
<b>Operating Expenses:</b>						
Class A	31,070	15,189	36,751	18,779	7,205	108,994
Office/Technical	1,426	756	—	—	—	2,182
Hotel	6,339	—	—	—	—	6,339
<b>Total</b>	<u>38,835</u>	<u>15,945</u>	<u>36,751</u>	<u>18,779</u>	<u>7,205</u>	<u>117,515</u>
% of Total	33.05%	13.57%	31.27%	15.98%	6.13%	100.0%
<b>Net Operating Income</b>	<u>\$53,478</u>	<u>\$ 44,481</u>	<u>\$ 86,924</u>	<u>\$ 29,060</u>	<u>\$ 8,870</u>	<u>\$222,813</u>
% of Total	24.00%	19.97%	39.01%	13.04%	3.98%	100.0%

**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Nine months ended September 30, 2007 (dollars in thousands):

	<u>Greater Boston</u>	<u>Greater Washington, D.C.</u>	<u>Midtown Manhattan</u>	<u>Greater San Francisco</u>	<u>New Jersey</u>	<u>Total</u>
<b>Rental Revenue:</b>						
Class A	\$248,257	\$ 185,361	\$332,822	\$ 150,932	\$ 51,520	\$ 968,892
Office/Technical	20,625	12,674	—	—	—	33,299
Hotels	24,690	—	—	—	—	24,690
<b>Total</b>	<u>293,572</u>	<u>198,035</u>	<u>332,822</u>	<u>150,932</u>	<u>51,520</u>	<u>1,026,881</u>
% of Total	28.59%	19.29%	32.41%	14.69%	5.02%	100.0%
<b>Operating Expenses:</b>						
Class A	95,691	52,717	103,445	58,081	22,128	\$ 332,062
Office/Technical	6,554	2,723	—	—	—	9,277
Hotel	18,706	—	—	—	—	18,706
<b>Total</b>	<u>120,951</u>	<u>55,440</u>	<u>103,445</u>	<u>58,081</u>	<u>22,128</u>	<u>360,045</u>
% of Total	33.59%	15.40%	28.73%	16.13%	6.15%	100.0%
<b>Net Operating Income</b>	<u>\$172,621</u>	<u>\$ 142,595</u>	<u>\$229,377</u>	<u>\$ 92,851</u>	<u>\$ 29,392</u>	<u>\$ 666,836</u>
% of Total	25.89%	21.38%	34.40%	13.92%	4.41%	100.0%

Nine months ended September 30, 2006 (dollars in thousands):

	<u>Greater Boston</u>	<u>Greater Washington, D.C.</u>	<u>Midtown Manhattan</u>	<u>Greater San Francisco</u>	<u>New Jersey</u>	<u>Total</u>
<b>Rental Revenue:</b>						
Class A	\$228,321	\$ 165,303	\$391,247	\$ 139,246	\$ 48,618	\$ 972,735
Office/Technical	19,799	11,543	—	—	—	31,342
Hotels	21,598	—	—	—	—	21,598
<b>Total</b>	<u>269,718</u>	<u>176,846</u>	<u>391,247</u>	<u>139,246</u>	<u>48,618</u>	<u>1,025,675</u>
% of Total	26.30%	17.24%	38.15%	13.57%	4.74%	100.0%
<b>Operating Expenses:</b>						
Class A	88,657	44,143	119,750	52,929	21,206	326,685
Office/Technical	4,060	2,271	—	—	—	6,331
Hotel	16,860	—	—	—	—	16,860
<b>Total</b>	<u>109,577</u>	<u>46,414</u>	<u>119,750</u>	<u>52,929</u>	<u>21,206</u>	<u>349,876</u>
% of Total	31.32%	13.26%	34.23%	15.13%	6.06%	100.0%
<b>Net Operating Income</b>	<u>\$160,141</u>	<u>\$ 130,432</u>	<u>\$271,497</u>	<u>\$ 86,317</u>	<u>\$ 27,412</u>	<u>\$ 675,799</u>
% of Total	23.70%	19.30%	40.17%	12.77%	4.06%	100.00%

**BOSTON PROPERTIES, INC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following is a reconciliation of net operating income to net income available to common shareholders:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net operating income	\$220,693	\$222,813	\$ 666,836	\$ 675,799
Add:				
Development and management services	5,318	4,558	15,175	14,159
Interest and other	25,081	14,611	68,274	25,124
Minority interest in property partnership	—	—	—	2,013
Income from unconsolidated joint ventures	1,390	20,200	19,623	23,167
Gains on sales of real estate, net of minority interest	168,495	17,889	788,855	604,200
Income from discontinued operations, net of minority interest	—	3,371	1,283	7,228
Gains on sales of real estate from discontinued operations, net of minority interest	—	—	173,899	—
Less:				
General and administrative expense	(20,189)	(12,739)	(53,288)	(43,177)
Interest expense	(69,929)	(73,571)	(217,598)	(226,837)
Depreciation and amortization expense	(71,616)	(70,558)	(216,715)	(203,640)
Losses from early extinguishments of debt	(2,695)	(208)	(3,417)	(32,132)
Minority interest in Operating Partnership	(14,178)	(18,404)	(42,455)	(44,911)
Net income available to common shareholders	<u>\$242,370</u>	<u>\$107,962</u>	<u>\$1,200,472</u>	<u>\$ 800,993</u>

**15. Newly Issued Accounting Standards**

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109” (“FIN No. 48”). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 was effective for fiscal years beginning after December 15, 2006. FIN No. 48, which was adopted by the Company effective January 1, 2007, did not have a material impact on the Company’s cash flows, results of operations, financial position or liquidity.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 157 to have a material impact on the Company’s cash flows, results of operations, financial position or liquidity.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall

**BOSTON PROPERTIES, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 159 to have a material impact on the Company's cash flows, results of operations, financial position or liquidity.

**16. Subsequent Events**

On October 1, 2007, a joint venture in which the Company has a 50% interest, placed in-service 505 9th Street, a 323,000 net rentable square foot Class A office property located in Washington, D.C. On October 17, 2007, the construction financing on the property was converted to a ten-year fixed rate loan. The construction financing was comprised of (1) a \$60.0 million loan commitment, which bore interest at a fixed rate of 5.73% per annum, with an outstanding balance of approximately \$50.5 million, and (2) a \$35.0 million loan commitment, which bore interest at a variable rate equal to LIBOR plus 1.25% per annum, with an outstanding balance of approximately \$29.0 million. The new mortgage financing totaling \$130.0 million bears interest at a fixed interest rate of 5.73% per annum and matures on November 1, 2017.

On October 1, 2007, the Company used available cash to repay the mortgage loans collateralized by its 504, 506, 508 and 510 Carnegie Center properties located in Princeton, New Jersey totaling approximately \$65.0 million. There was no prepayment penalty associated with the repayment. The mortgage loans bore interest at a fixed rate of 7.39% per annum and were scheduled to mature on January 1, 2008.

On October 25, 2007, the Company executed a binding agreement for the sale of its Orbital Science Campus and Broad Run Business Park, Building E properties located in Loudon County, Virginia, for approximately \$126.7 million in cash. The Orbital Science Campus and Broad Run Business Park, Building E properties are comprised of three Class A office properties aggregating approximately 337,000 net rentable square feet and an office/technical property totaling approximately 127,000 net rentable square feet, respectively. The sale price for the properties exceeds the aggregate carrying value of the properties. The sale is subject to the satisfaction of customary closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

On November 2, 2007, the Company entered into a forward-starting interest rate swap contract to lock the 10-year LIBOR swap rate on a notional amount of \$25.0 million at a forward-starting 10-year swap rate of 5.05% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the referenced contract effectively fixed the 10-year treasury rate at 4.38%. The swap contract goes into effect on July 31, 2008 and expires on July 31, 2018. On November 9, 2007, the Company entered into a treasury lock that fixed the 10-year treasury rate at 4.33% per annum on a notional amount of \$25.0 million. The treasury lock matures on July 31, 2008. The Company has effectively fixed the 10-year treasury rate at a weighted average interest rate of 4.65% per annum on notional amounts aggregating \$500.0 million with its interest rate hedging program (See Note 5).

On November 8, 2007, the Company executed a binding agreement to acquire Mountain View Research Park for \$183.0 million and Mountain View Technology Park for \$40.0 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 610,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. The Company is in discussions with its partners in the Value-Added Fund regarding the possibility of acquiring Mountain View Technology Park through the Value-Added Fund. The acquisition is subject to the satisfaction of customary closing conditions and there can be no assurance that the acquisition will be consummated on the terms currently contemplated or at all.

**ITEM 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations**

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

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

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants’ financial condition, and competition from other developers, owners and operators of real estate);
- failure to manage effectively our growth and expansion into new markets and sub-markets or to integrate acquisitions and developments successfully;
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments, including the risk associated with interest rates impacting the cost and/or availability of financing;
- risks associated with forward interest rate contracts and the effectiveness of such arrangements;
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;
- risks associated with actual or threatened terrorist attacks;
- risks associated with the impact on our insurance program if TRIA, which expires on December 31, 2007, is not extended or is extended on different terms;
- costs of compliance with the Americans with Disabilities Act and other similar laws;
- potential liability for uninsured losses and environmental contamination;
- risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended;
- possible adverse changes in tax and environmental laws;

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- risks associated with possible state and local tax audits;
- risks associated with our dependence on key personnel whose continued service is not guaranteed; and
- the other risk factors identified in our most recently filed Annual Report on Form 10-K, including those described under the caption “Risk Factors.”

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

### **Overview**

We are a fully integrated self-administered and self-managed REIT and one of the largest owners and developers of Class A office properties in the United States. Our properties are concentrated in five markets—Boston, midtown Manhattan, Washington, D.C., San Francisco and Princeton, NJ. We generate revenue and cash primarily by leasing our Class A office space to our tenants. Factors we consider when we lease space include the creditworthiness of the tenant, the length of the lease, the rental rate to be paid, the costs of tenant improvements, current and anticipated operating costs and real estate taxes, our current and anticipated vacancy, current and anticipated future demand for office space generally and general economic factors. We also generate cash through the sale of assets, which may be either non-core assets or core assets that command premiums from real estate investors.

Our core strategy has always been to operate in supply constrained markets, so given the combination of strong demand, increasing replacement costs and scarcity of supply, we expect our assets to continue to appreciate over time. Given current market conditions, we generally believe that the returns we can generate from development will be greater than those we can expect to realize from acquisitions. As a result, we have been focusing on selectively selling assets, thereby reducing the overall size of the in service portfolio and replacing the sold assets with substantial investments in new development opportunities. Since the beginning of 2005 we have completed over \$4.1 billion of asset sales. We have started approximately \$1.7 billion of developments in 2007, including commencing construction on our approximately 1.0 million square foot office tower in New York City at 250 West 55th Street and on our 815,000 square foot mixed-used Russia Wharf development in Boston. We will enter 2008 with an active development program of approximately \$2.1 billion, and although we will consider additional asset sales, we do not expect our sales volume to be comparable to that of prior years. While the asset sales will have the impact of dampening our short-term, year-to-year earnings growth rate, we believe our focus on new development will enhance our long-term return on equity and earnings growth as these developments are placed in-service in 2009, 2010 and 2011.

We continue to monitor the real estate debt markets and their impact on asset pricing and our ability to find attractively priced acquisitions. We believe that if a major asset were to be financed today, CMBS investment grade debt would make up a much smaller and more expensive piece of the capital structure than over the past several years. If debt is more expensive and more equity is required to complete deals, we are well positioned to take advantage of new opportunities with our low leverage and access to multiple sources of capital.

The highlights of the three months ended September 30, 2007 included the following:

- On July 12, 2007, we executed a lease with Ropes & Gray LLP to relocate its Boston office to the Prudential Tower. The law firm will occupy more than 400,000 square feet of office space in the top floors of the 52-story, 1.2 million square foot office building beginning in the fall of 2010.
- On July 16, 2007, we entered into a joint venture with an unrelated third party to develop Annapolis Junction, a Class A office complex aggregating approximately 425,000 net rentable square feet located in Anne Arundel County, Maryland. The joint venture partner contributed the land for a 50% interest in the joint venture and the Company will contribute cash of approximately \$14.9 million for its 50% interest. The joint venture has commenced construction on an approximately 117,600 net rentable square foot Class A office property on the site. On September 13, 2007, the joint venture entity obtained construction financing totaling \$45.5 million. The construction financing bears interest at a variable rate equal to LIBOR plus 1.20% per annum and matures in September 2010, with two one-year extension options.
- On July 24, 2007, we acquired 701 Carnegie Center, a land parcel located in Princeton, New Jersey for a purchase price of approximately \$3.1 million with the title transferring pending subdivision approval. The purchase price was financed with available cash.
- On July 27, 2007, we commenced an interest rate hedging program for a portion of our anticipated financing activity in 2008. As of September 30, we have entered into a series of treasury lock contracts and forward starting interest rate swap contracts on notional amounts aggregating \$450.0 million for 10-year fixed rate financings estimated to occur on or about April 1, 2008 and on or about July 31, 2008. The contracts have fixed the 10-year treasury rate at a weighted-average rate of 4.68%. See Note 5 to the Consolidated Financial Statements.
- On August 6, 2007, we used available cash to repay the mortgage loan collateralized by our Embarcadero Center Four property located in San Francisco, California totaling approximately \$131.2 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.79% per annum and was scheduled to mature on February 1, 2008.
- On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately \$280.5 million. Democracy Center is a Class A office complex that contains an aggregate of approximately 685,000 net rentable square feet. In conjunction with the sale, we repaid the mortgage financing collateralized by the property totaling approximately \$94.6 million. We paid a prepayment fee of approximately \$2.6 million associated with the repayment. The mortgage loan bore interest at a fixed rate equal to 7.05% per annum and was scheduled to mature on April 1, 2009. We will continue to have continuing involvement with this property through a management agreement with the buyer.
- On September 27, 2007, we executed a contract to acquire North First Business Park located in San Jose, California, at a purchase price of approximately \$71.5 million. This property is comprised of eight office/technical properties aggregating approximately 367,000 net rentable square feet located on approximately 24 acres of land. We expect to redevelop this site into approximately 1.4 million net rentable square feet of Class A office space. The acquisition is subject to the satisfaction of customary closing conditions and there can be no assurance that the acquisition will be consummated on the terms currently contemplated or at all.
- On September 27, 2007, we entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.57% per annum on a construction loan with a notional amount of \$96.7 million. The swap contract went into effect on October 22, 2007 and expires on October 29, 2008.
- During the three months ended September 30, 2007, we commenced the following development projects:
  - the Offices at Wisconsin Place, a Class A office project with approximately 290,000 net rentable square feet located in Chevy Chase, Maryland (through a joint venture in which the Company owns a 66.7% interest);



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- 701 Carnegie Center, a Class A office project with approximately 120,000 net rentable square feet located in Princeton, New Jersey;
- South of Market, a Class A office project with approximately 225,000 net rentable square feet located in Reston, Virginia;
- 250 West 55th Street, a Class A office project with approximately 1,000,000 net rentable square feet located in New York City; and
- Russia Wharf, a mixed-use project with approximately 580,000 net rentable square feet of Class A office space and approximately 235,000 square feet of residential space for rent or for sale located in Boston, Massachusetts.

### Transactions completed subsequent to September 30, 2007:

- On October 1, 2007, a joint venture in which we have a 50% interest, placed in-service 505 9th Street, a 323,000 net rentable square foot Class A office property located in Washington, D.C. The building is 97% leased. On October 17, 2007, the construction financing on the property was converted to a 10-year fixed rate loan that matures on November 1, 2017. The loan totals \$130.0 million and bears interest at a fixed interest rate of 5.73% per annum.
- On October 1, 2007, we used available cash to repay the mortgage loans collateralized by our 504, 506, 508 and 510 Carnegie Center properties located in Princeton, New Jersey totaling approximately \$65.0 million. There was no prepayment penalty associated with the repayment. The mortgage loans bore interest at a fixed rate of 7.39% per annum and were scheduled to mature on January 1, 2008.
- On October 25, 2007, we executed a binding agreement for the sale of our Orbital Science Campus and Broad Run Business Park, Building E properties located in Loudon County, Virginia, for approximately \$126.7 million in cash. The Orbital Science Campus and Broad Run Business Park, Building E properties are comprised of three Class A office properties aggregating approximately 337,000 net rentable square feet and an office/technical property totaling approximately 127,000 net rentable square feet, respectively. The sale price for the properties exceeds the aggregate carrying value of the properties. We currently expect to complete the sale as part of a “like-kind exchange” under Section 1031 of the Internal Revenue Code. The sale is subject to the satisfaction of customary closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.
- On November 2, 2007, we entered into a forward-starting interest rate swap contract to lock the 10-year LIBOR swap rate on a notional amount of \$25.0 million at a forward-starting 10-year swap rate of 5.05% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the referenced contract effectively fixed the 10-year treasury rate at 4.38%. The swap contract goes into effect on July 31, 2008 and expires on July 31, 2018. On November 9, 2007, we entered into a treasury lock that fixed the 10-year treasury rate at 4.33% per annum on a notional amount of \$25.0 million. The treasury lock matures on July 31, 2008. We have effectively fixed the 10-year treasury rate at a weighted average interest rate of 4.65% per annum on notional amounts aggregating \$500.0 million with its interest rate hedging program.
- On November 8, 2007, we executed a binding agreement to acquire Mountain View Research Park for \$183.0 million and Mountain View Technology Park for \$40.0 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 610,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. We are in discussions with our partners in our Value-Added Fund regarding the possibility of acquiring Mountain View Technology Park through our Value-Added Fund. The acquisition is subject to the satisfaction of customary closing conditions and there can be no assurance that the acquisition will be consummated on the terms currently contemplated or at all.

### **Election of New Chief Financial Officer and Employment-Related Matters**

On October 22, 2007, the Company's Board of Directors elected Michael E. LaBelle, age 43, to the position of Senior Vice President, Chief Financial Officer and Treasurer, effective November 15, 2007. Mr. LaBelle currently serves as Senior Vice President, Finance. Mr. LaBelle joined the Company in March 2000 as Vice President, Finance and he was promoted to his current position in February 2005. His primary responsibilities have included managing all debt capital market activities, including maintaining the Company's relationships with its rating agencies and lending institutions, supervising treasury management and underwriting tenant credit capacity. In connection with this promotion, Douglas T. Linde, the Company's current President, Chief Financial Officer and Treasurer, will relinquish the titles of Chief Financial Officer and Treasurer effective November 15, 2007. Mr. D. Linde will retain the title of President of the Company.

On October 18, 2007, the Company's Compensation Committee (the "Committee") authorized amendments to (1) the employment agreements by and between the Company and the following executive officers: Mortimer B. Zuckerman, Edward H. Linde, Douglas T. Linde, Raymond A. Ritchey, E. Mitchell Norville, Peter D. Johnston, Bryan J. Koop, Mitchell S. Landis, Robert E. Pester and Robert E. Selsam and (2) the Senior Executive Severance Agreements between the Company and each of Messrs. Zuckerman and E. Linde. Each of the foregoing amendments became effective as of November 1, 2007. In addition, effective October 18, 2007, the Committee approved amendments to the Company's Senior Executive Severance Plan, Executive Severance Plan and Officer Severance Plan. The aforementioned agreements and severance plans were amended to comply with Section 409A of the Internal Revenue Code, which established new rules for deferred compensation. The amendments are technical in nature and do not materially change the benefits to participants under the agreements and plans.

### **Update on Recent Regulatory Initiatives**

On August 31, 2007, the Financial Accounting Standards Board (the "FASB") issued proposed FASB Staff Position No. APB 14-a "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" (the "proposed FSP") that would require the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The proposed FSP, if issued as currently contemplated, would require that the initial debt proceeds from the sale of Boston Properties Limited Partnership's ("BPLP") \$862.5 million of 2.875% exchangeable senior notes due 2037 and \$450.0 million of 3.75% exchangeable senior notes due 2036 be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt. The resulting debt discount would be amortized over the period during which the debt is expected to be outstanding (i.e., through the first optional redemption dates) as additional non-cash interest expense. The proposed FSP would be effective for fiscal years beginning after December 15, 2007 and interim periods within those fiscal years, and it would be applied retrospectively to BPLP's outstanding exchangeable senior notes for all periods presented. Based on our current understanding of the application of the proposed FSP, this would result in an aggregate of approximately \$18 million (net of incremental capitalized interest) of additional non-cash interest expense for fiscal 2008. Excluding the impact of capitalized interest, the additional non-cash interest expense would be approximately \$20 million to \$22 million, and this amount (before netting) will increase in subsequent reporting periods through the first optional redemption dates as the debt accretes to its par value over the same period. There can be no assurance that the proposed FSP will be issued in the form currently contemplated by the FASB, or at all, and therefore its ultimate impact on our interest expense may differ materially from the aforementioned estimate.

Legislation was recently introduced in Congress that would treat publicly traded partnerships as corporations for federal income tax purposes if the partnership directly or indirectly derives income from certain investment adviser or asset management services. Because certain of Boston Properties Limited Partnership's current activities could constitute investment adviser or asset management services as defined for these purposes,

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unless transfers of ownership of interests in Boston Properties Limited Partnership are limited in a manner that complies with certain regulatory safe harbors or another exception applies, it is possible that this legislation, if enacted, could cause Boston Properties Limited Partnership to be taxable as a corporation. Classification of Boston Properties Limited Partnership as a corporation would also cause Boston Properties, Inc. to fail to qualify as a REIT. Under a transitional rule contained in one version of the proposed legislation, Boston Properties Limited Partnership would be exempt from the new rules until its taxable year beginning January 1, 2013. An alternative proposal, however, would shorten the transition period to make the new law applicable to existing publicly-traded partnerships beginning January 1, 2008, and it is possible that any legislation ultimately enacted could be effective immediately or possibly even retroactively.

Congress is also considering legislative proposals to treat all or part of certain income allocated to a partner by a partnership in respect of certain services provided to or for the benefit of the partnership (“carried interest revenue”) as ordinary income for U.S. federal income tax purposes. While the current legislative proposal provides that such income will nevertheless retain its original character for purposes of the REIT qualification tests, it is not clear what form any such final legislation would take. Furthermore, under the proposed legislation, carried interest revenue could be treated as non-qualifying income for purposes of the “qualifying income” exception to the publicly-traded partnership rules. If enacted, this could result in Boston Properties Limited Partnership being taxable as a corporation for U.S. federal income tax purposes if the amount of any such carried interest revenue plus any other non-qualifying income earned by Boston Properties Limited Partnership exceeds 10% of its gross income in any taxable year.

### **Critical Accounting Policies**

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

#### ***Real Estate***

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, “above-” and “below-market” leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, “Business Combinations” and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost. We assess and consider fair value based on estimated cash flow projections that utilize discount and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants’ credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

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We record acquired “above-” and “below-market” leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management’s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant’s lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development.

Management reviews its long-lived assets used in operations for impairment following the end of each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be “long-lived assets to be held and used” as defined by SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets,” (“SFAS No. 144”) are considered on an undiscounted basis to determine whether an asset has been impaired, our established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date.

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

A variety of costs are incurred in the acquisition, development and leasing of properties. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 “Capitalization of Interest Cost” and SFAS No. 67 “Accounting for Costs and the Initial Rental Operations of Real Estate Projects.” The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a construction project as

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substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

### ***Investments in Unconsolidated Joint Ventures***

Except for ownership interests in variable interest entities, we account for our investments in joint ventures under the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses, however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary.

### ***Revenue Recognition***

Base rental revenue is reported on a straight-line basis over the terms of our respective leases. In accordance with SFAS No. 141, we recognize rental revenue of acquired in-place "above-" and "below-market" leases at their fair values over the terms of the respective leases. Accrued rental income as reported on the Consolidated Balance Sheets represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

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

- review relevant financial information, including:
  - financial ratios;
  - net worth;
  - debt to market capitalization; and
  - liquidity;
- evaluate the depth and experience of the tenant's management team; and
- assess the strength/growth of the tenant's industry.

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

- (1) low risk tenants;
- (2) the tenant's credit is such that we require collateral, in which case we:
  - require a security deposit; and/or
  - reduce upfront tenant improvement investments; or
- (3) the tenant's credit is below our acceptable parameters.

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

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Tenant receivables are assigned a credit rating of 1-4 with a rating of 1 representing the highest possible rating with no allowance recorded and a rating of 4 representing the lowest credit rating, recording a full reserve against the receivable balance. Among the factors considered in determining the credit rating include:

- payment history;
- credit status and change in status (credit ratings for public companies are used as a primary metric);
- change in tenant space needs (i.e., expansion/downsize);
- tenant financial performance;
- economic conditions in a specific geographic region; and
- industry specific credit considerations.

If our estimates of collectibility differ from the cash received, the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases was approximately 7.3 years as of September 30, 2007. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants' risk profiles prior to lease execution and frequent monitoring of our portfolio to identify potential problem tenants.

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

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

We receive management and development fees from third parties. Management fees are recorded and earned based on a percentage of collected rents as well as fixed fee arrangements at the properties under management. We review each development agreement and record development fees as earned depending on the risk associated with each project. Profit on development fees earned from joint venture projects is recognized as revenue to the extent of the third party partners' ownership interest.

Gains on sales of real estate are recognized pursuant to the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." The specific timing of the sale is measured against various criteria in SFAS No. 66 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, installment or cost recovery methods, as appropriate, until the sales criteria are met.

### ***Depreciation and Amortization***

We compute depreciation and amortization on our properties using the straight-line method based on estimated useful asset lives. In accordance with SFAS No. 141, we allocate the acquisition cost of real estate to land, building, tenant improvements, acquired "above-" and "below-market" leases, origination costs and acquired in-place leases based on an assessment of their fair value and depreciate or amortize these assets over their useful lives. The amortization of acquired "above-" and "below-market" leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

### ***Fair Value of Financial Instruments***

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

### **Results of Operations**

The following discussion is based on our Consolidated Financial Statements for the three and nine months ended September 30, 2007 and 2006.

At September 30, 2007 and September 30, 2006, we owned or had interests in a portfolio of 138 and 128 properties, respectively (in each case, the “Total Property Portfolio”). As a result of changes within our Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from period-to-period. Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio are necessarily meaningful. Therefore, the comparison of operating results for the three and nine months ended September 30, 2007 and 2006 show separately the changes attributable to the properties that were owned by us throughout each period compared (the “Same Property Portfolio”) and the changes attributable to the Total Property Portfolio.

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

Net operating income, or “NOI,” is a non-GAAP financial measure equal to net income available to common shareholders, the most directly comparable GAAP financial measure, plus minority interest in Operating Partnership, losses from early extinguishment of debt, depreciation and amortization, interest expense, general and administrative expense, income from discontinued operations (net of minority interest), less gains on sales of real estate (net of minority interest), gains on sales of real estate from discontinued operations (net of minority interest), income from unconsolidated joint ventures, minority interest in property partnership, interest and other income and development and management services revenue. We use NOI internally as a performance measure and believe NOI provides useful information to investors regarding our financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level. Therefore, we believe NOI is a useful measure for evaluating the operating performance of our real estate assets.

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspective not immediately apparent from net income. NOI excludes certain components from net income in order to provide results that are more closely related to a property’s results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level as opposed to the property level. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. NOI presented by us may not be comparable to NOI reported by other REITs that define NOI differently. We believe that in order

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to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income as presented in our consolidated financial statements. NOI should not be considered as an alternative to net income as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions.

### ***Comparison of the nine months ended September 30, 2007 to the nine months ended September 30, 2006.***

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 110 properties totaling approximately 27.6 million net rentable square feet of space. The Same Property Portfolio includes properties acquired or placed in-service on or prior to January 1, 2006 and owned through September 30, 2007. In addition, the Same Property Portfolio includes our Cambridge Center Marriott hotel property, but does not include the Long Wharf Marriott hotel property, which was sold on March 23, 2007. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2006 or disposed of on or prior to September 30, 2007. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months ended September 30, 2007 and 2006 with respect to the properties which were acquired, placed in-service, repositioned or sold.

During July 2006, we placed in-service our Capital Gallery expansion project, consisting of a ten-story addition totaling approximately 319,000 net rentable square feet of Class A office space located in Washington, D.C. The project entailed removing a three-story, low-rise section of the property from in-service status and developing it into a ten-story office building resulting in a total complex size of approximately 615,000 net rentable square feet. In April 2006, tenants began to take initial occupancy. This property is included in Properties Repositioned for the nine months ended September 30, 2007 and September 30, 2006.



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	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
	2007	2006	Increase/ (Decrease)	% Change	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	Increase/ (Decrease)	% Change
(dollars in thousands)																
<b>Rental Revenue:</b>																
Rental Revenue	\$901,335	\$863,307	\$ 38,028	4.40%	\$21,787	\$101,182	\$33,858	\$2,884	\$ 21,430	\$ 16,788	\$19,680	\$14,012	\$ 998,090	\$ 998,173	\$ (83)	(0.01)%
Termination Income	4,101	4,766	(665)	(13.95)%	—	1,138	—	—	—	—	—	—	4,101	5,904	(1,803)	(30.54)%
Total Rental Revenue	905,436	868,073	37,363	4.30%	21,787	102,320	33,858	2,884	21,430	16,788	19,680	14,012	1,002,191	1,004,007	(1,816)	(0.18)%
<b>Real Estate Operating Expenses</b>																
Real Estate Operating Expenses	314,368	295,687	18,681	6.32%	5,889	30,134	10,652	671	5,133	2,755	5,297	3,769	341,339	333,016	8,323	2.50%
<b>Net Operating Income, excluding hotels</b>																
Net Operating Income, excluding hotels	591,068	572,386	18,682	3.26%	15,898	72,186	23,206	2,213	16,297	14,033	14,383	10,243	660,852	671,061	(10,209)	(1.52)%
<b>Hotel Net Operating Income(1)</b>																
Hotel Net Operating Income(1)	5,984	4,738	1,246	26.30%	—	—	—	—	—	—	—	—	5,984	4,738	1,246	26.30%
<b>Consolidated Net Operating Income(1)</b>																
Consolidated Net Operating Income(1)	597,052	577,124	19,928	3.45%	15,898	72,186	23,206	2,213	16,297	14,033	14,383	10,243	666,836	675,799	(8,963)	(1.33)%
<b>Other Revenue:</b>																
Development and Management Services																
Development and Management Services	—	—	—	—	—	—	—	—	—	—	—	—	15,175	14,159	1,016	7.18%
Interest and Other																
Interest and Other	—	—	—	—	—	—	—	—	—	—	—	—	68,274	25,124	43,150	171.75%
Total Other Revenue	—	—	—	—	—	—	—	—	—	—	—	—	83,449	39,283	44,166	112.43%
<b>Other Expenses:</b>																
General and administrative expense																
General and administrative expense	—	—	—	—	—	—	—	—	—	—	—	—	53,288	43,177	10,111	23.42%
Interest																
Interest	—	—	—	—	—	—	—	—	—	—	—	—	217,598	226,837	(9,239)	(4.07)%
Depreciation and amortization																
Depreciation and amortization	187,083	180,134	6,949	3.86%	2,767	15,072	17,534	1,185	6,071	5,325	3,260	1,924	216,715	203,640	13,075	6.42%
Loss from early extinguishments of debt																
Loss from early extinguishments of debt	—	—	—	—	—	—	—	—	—	—	—	—	3,417	32,132	(28,715)	(89.37)%
Total Other Expenses	187,083	180,134	6,949	3.86%	2,767	15,072	17,534	1,185	6,071	5,325	3,260	1,924	491,018	505,786	(14,768)	(2.92)%
<b>Income before minority interests</b>																
Income before minority interests	\$409,969	\$396,990	\$ 12,979	3.27%	\$13,131	\$ 57,114	\$ 5,672	\$1,028	\$ 10,226	\$ 8,708	\$11,123	\$ 8,319	\$ 259,267	\$ 209,296	\$ 49,971	23.88%
<b>Income from unconsolidated joint ventures</b>																
Income from unconsolidated joint ventures	\$ 4,346	\$ 5,712	\$ (1,366)	(23.91)%	\$15,296	\$ 17,634	\$ (19)	\$ (179)	\$ —	\$ —	\$ —	\$ —	19,623	23,167	(3,544)	(15.30)%
<b>Income from discontinued operations, net of minority interest</b>																
Income from discontinued operations, net of minority interest	\$ —	\$ —	\$ —	—	\$ 1,283	\$ 7,228	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	1,283	7,228	(5,945)	(82.25)%
<b>Minority interest in property partnership</b>																
Minority interest in property partnership	—	—	—	—	—	—	—	—	—	—	—	—	—	2,013	(2,013)	(100.0)%
<b>Minority interest in Operating Partnership</b>																
Minority interest in Operating Partnership	—	—	—	—	—	—	—	—	—	—	—	—	(42,455)	(44,911)	2,456	5.47%
<b>Gains on sales of real estate, net of minority interest</b>																
Gains on sales of real estate, net of minority interest	—	—	—	—	—	—	—	—	—	—	—	—	788,855	604,200	184,655	30.56%
<b>Gains on sales of real estate from discontinued operations, net of minority interest</b>																
Gains on sales of real estate from discontinued operations, net of minority interest	—	—	—	—	—	—	—	—	—	—	—	—	173,899	—	173,899	100.0%
<b>Net Income available to common shareholders</b>																
Net Income available to common shareholders	—	—	—	—	—	—	—	—	—	—	—	—	\$1,200,472	\$ 800,993	\$ 399,479	49.87%

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 37. Hotel Net Operating Income for the nine months ended September 30, 2007 and 2006 are comprised of Hotel Revenue of \$24,690 and \$21,598 less Hotel Expenses of \$18,706 and \$16,860 respectively per the Consolidated Income Statement.

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### **Rental Revenue**

The decrease of approximately \$0.1 million in the Total Property Portfolio is comprised of increases and decreases within the five categories that comprise our Total Property Portfolio. Rental revenue from the Same Property Portfolio increased approximately \$38.0 million, Properties Sold decreased approximately \$79.4 million, Properties Acquired increased approximately \$31.0 million, Properties Placed In-Service increased approximately \$4.6 million and Properties Repositioned increased approximately \$5.7 million.

We incur certain tenant specific property costs for which we are reimbursed from our tenants. Starting in 2007, we have included these reimbursements in rental revenue and included the tenant specific operating cost within real estate operating expenses. This income and expense classification in 2007 results in a presented increase to comparable rental revenue and real estate operating expenses, however does not impact our consolidated net operating income. For the nine months ended September 30, 2007 and 2006, the rental income and real estate operating expense gross up was approximately \$6.8 million and \$8.9 million, respectively.

Rental revenue from the Same Property Portfolio increased approximately \$38.0 million for the nine months ended September 30, 2007 compared to 2006. Included in rental revenue is an overall increase in base rental revenue of approximately \$26.2 million, offset by a decrease of approximately \$3.1 million related to straight line rent. Approximately \$11.8 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants which correlates with the increase in operating expenses. We collected almost \$2.0 million in connection with a modification to the calculation of a tenant's real estate tax operating expense obligation from a lease that commenced in 1999 and was adjusted for the last six years. The remaining \$3.1 million increase related to parking and other income. During the third quarter we recognized unanticipated revenue related to holdover rent in Princeton, percentage rent and early rent commencement in Boston, as well as operating savings from lower energy costs and deferred repairs and maintenance expense. We expect that our straight line rent and FAS 141 adjustment to rental revenue will be approximately \$9.0 million for the fourth quarter.

The acquisitions of 6601 & 6605 Springfield Center Drive, 103 Fourth Avenue and Kingstowne Towne Center during the nine months ended September 30, 2007, as well as the acquisitions during 2006, increased rental revenue from Properties Acquired by approximately \$31.0 million for the nine months ended September 30, 2007 as detailed below:

Property	Date Acquired	Rental Revenue for the nine months ended September 30		
		2007	2006 (in thousands)	Change
Kingstowne Towne Center	March 30, 2007	\$ 7,011	\$ —	\$ 7,011
103 Fourth Avenue	January 29, 2007	528	—	528
6601 & 6605 Springfield Center Drive	January, 2007	570	—	570
Four and Five Cambridge Center	November 30, 2006	13,079	—	13,079
303 Almaden Avenue	June 30, 2006	4,706	1,602	3,104
3200 Zanker Road	August 10, 2006	7,964	1,282	6,682
<b>Total</b>		<b>\$33,858</b>	<b>\$2,884</b>	<b>\$30,974</b>

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The increase in rental revenue from Properties Placed In-Service relates to placing in-service our Seven Cambridge Center development project in the first quarter of 2006 and our 12290 Sunrise Valley development project in the second quarter of 2006. Rental revenue from Properties Placed In-Service increased approximately \$4.6 million, as detailed below:

Property	Date Placed In-Service	Rental Revenue for the nine months ended September 30		
		2007	2006 (in thousands)	Change
Seven Cambridge Center	First Quarter, 2006	\$16,682	\$14,068	\$2,614
12290 Sunrise Valley	Second Quarter, 2006	4,748	2,720	2,028
<b>Total</b>		<u>\$21,430</u>	<u>\$16,788</u>	<u>\$4,642</u>

Rental revenue from Properties Repositioned for the nine months ended September 30, 2007 increased approximately \$5.7 million over the nine months ended September 30, 2006. Our Capital Gallery expansion project is included in Properties Repositioned for the nine months ended September 30, 2007 and September 30, 2006. In April 2006, tenants began to take occupancy and we placed our Capital Gallery expansion project in-service in July 2006.

The aggregate increase in rental revenue was offset by the sales of Democracy Center in August 2007, 5 Times Square in February 2007 and 280 Park Avenue in June 2006. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property. Rental Revenue from Properties Sold decreased by approximately \$79.4 million, as detailed below:

Property	Date Sold	Rental Revenue for the nine months ended September 30		
		2007	2006 (in thousands)	Change
Democracy Center	August 7, 2007	\$ 12,016	\$ 12,946	\$ (930)
5 Times Square	February 15, 2007	9,771	56,028	(46,257)
280 Park Avenue	June 6, 2006	—	32,208	(32,208)
<b>Total</b>		<u>\$ 21,787</u>	<u>\$ 101,182</u>	<u>\$ (79,395)</u>

### **Termination Income**

Termination income for the nine months ended September 30, 2007 was related to thirteen tenants across the Total Property Portfolio that terminated their leases, and we recognized termination income totaling approximately \$4.1 million. This compared to termination income of approximately \$5.9 million for the nine months ended September 30, 2006 related to fifteen tenants. We currently anticipate realizing approximately \$1.0 million in termination income for the fourth quarter of 2007.

### **Real Estate Operating Expenses**

The \$8.3 million increase in property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Total Property Portfolio is comprised of increases and decreases within five categories that comprise our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately \$18.7 million, Properties Sold decreased approximately \$24.2 million, Properties Acquired increased approximately \$10.0 million, Properties Placed In-Service increased approximately \$2.3 million and Properties Repositioned increased approximately \$1.5 million.

We incur certain tenant specific property costs for which we are reimbursed from our tenants. Starting in 2007, we have included these reimbursements in rental revenue and included the tenant specific operating cost

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within real estate operating expenses. This income and expense classification in 2007 results in a presented increase to comparable rental revenue and real estate operating expenses, however does not impact our consolidated net operating income. For the nine months ended September 30, 2007 and 2006, the rental income and real estate operating expense gross up was approximately \$6.8 million and \$8.9 million, respectively.

Operating expenses from the Same Property Portfolio increased approximately \$18.7 million for the nine months ended September 30, 2007 compared to 2006. Included in Same Property Portfolio operating expenses is an increase in repairs and maintenance of approximately \$3.6 million. In addition, real estate taxes increased approximately \$6.2 million, a 5.3% increase due to increased real estate tax assessments.

The acquisitions of 6601 & 6605 Springfield Center Drive, 103 Fourth Avenue, Springfield Metro Center and Kingstowne Towne Center during the nine months ended September 30, 2007, as well as the acquisitions during 2006, increased operating expenses from Properties Acquired by approximately \$10.0 million for the nine months ended September 30, 2007 as detailed below:

Property	Date Acquired	Real Estate Operating Expenses for the nine months ended September 30		
		2007	2006 (in thousands)	Change
Springfield Metro Center	April 11, 2007	\$ 59	\$ —	\$ 59
Kingstowne Towne Center	March 30, 2007	1,817	—	1,817
103 Fourth Avenue	January 29, 2007	448	—	448
6601 & 6605 Springfield Center Drive	January, 2007	133	—	133
Four and Five Cambridge Center	November 30, 2006	4,996	—	4,996
3200 Zanker Road	August 10, 2006	1,455	46	1,409
303 Almaden Avenue	June 30, 2006	1,744	625	1,119
<b>Total</b>		<b>\$ 10,652</b>	<b>\$ 671</b>	<b>\$ 9,981</b>

The increase in operating expenses from Properties Placed In-Service relates to placing in-service our Seven Cambridge Center development project in the first quarter of 2006 and our 12290 Sunrise Valley development project in the second quarter of 2006. Operating expenses from Properties Placed In-Service increased approximately \$2.3 million, as detailed below:

Property	Date Placed In-Service	Real Estate Operating Expenses for the nine months ended September 30		
		2007	2006 (in thousands)	Change
Seven Cambridge Center	First Quarter, 2006	\$ 4,179	\$ 2,519	\$ 1,660
12290 Sunrise Valley	Second Quarter, 2006	954	236	718
<b>Total</b>		<b>\$ 5,133</b>	<b>\$ 2,755</b>	<b>\$ 2,378</b>

Operating expenses from Properties Repositioned for the nine months ended September 30, 2007 increased approximately \$1.5 million over the nine months ended September 30, 2006. Our Capital Gallery expansion project is included in Properties Repositioned for the nine months ended September 30, 2007 and September 30, 2006. In April 2006, tenants began to take occupancy and we placed our Capital Gallery expansion project in-service in July 2006.

A decrease of approximately \$24.2 million in the Total Property Portfolio operating expenses was due to the sales of Democracy Center in August 2007, 5 Times Square in February 2007 and 280 Park Avenue in June 2006, as detailed below. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property.

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Property	Date Sold	Real Estate Operating Expenses for the nine months ended September 30		
		2007	2006	Change
Democracy Center	August 7, 2007	\$ 4,202	\$ 4,656	\$ (454)
5 Times Square	February 15, 2007	1,687	11,198	(9,511)
280 Park Avenue	June 6, 2006	—	14,280	(14,280)
<b>Total</b>		<u>\$ 5,889</u>	<u>\$ 30,134</u>	<u>\$ (24,245)</u>

We continue to review and monitor the impact of rising insurance and energy costs, as well as other factors, on our operating budgets for fiscal year 2008. Because some operating expenses are not recoverable from tenants, an increase in operating expenses due to one or more of the foregoing factors could have an adverse effect on our results of operations.

### **Hotel Net Operating Income**

Net operating income for the Cambridge Center Marriott hotel property increased approximately \$1.2 million for the nine months ended September 30, 2007 as compared to 2006. For the nine months ended September 30, 2007 and 2006, the operations of the Long Wharf Marriott has been included as part of discontinued operations due to its sale on March 23, 2007. We expect the Cambridge hotel to contribute between \$3.5 million and \$4.0 million to net operating income for the fourth quarter of 2007.

The following reflects our occupancy and rate information for the Cambridge Center Marriott hotel for the nine months ended September 30, 2007 and 2006. For the nine months ended September 30, 2006, our hotel underwent a room renovation project which totaled approximately \$5.6 million.

	2007	2006	Percentage Change
Occupancy	80.9%	74.5%	8.6%
Average daily rate	\$205.09	\$188.61	8.7%
Revenue per available room, REVPAR	\$165.94	\$140.54	18.1%

### **Development and Management Services**

Development and Management Services income increased approximately \$1.0 million for the nine months ended September 30, 2007 compared to 2006. The increase is attributed to higher fee income due to a leasing commission earned under our management contract with the buyer of 280 Park Avenue and greater work order income in New York City. We have maintained management contracts following the sale of Democracy Center on August 7, 2007, 5 Times Square on February 15, 2007 and 280 Park Avenue on June 6, 2006. As we complete our joint venture project at 505 9<sup>th</sup> Street and several large tenant improvement projects we expect development and management fee income to decrease. We expect third party fee income to be between \$3.5 million to \$4.0 million for the fourth quarter of 2007.

### **Interest and Other Income**

Interest and other income increased approximately \$43.2 million for the nine months ended September 30, 2007 compared to 2006 as a result of higher overall interest rates and increased average cash balances. In February 2007, our Operating Partnership issued \$862.5 million of 2.875% unsecured exchangeable senior notes. On February 15, 2007, we completed the sale of our long-term leasehold interest in 5 Times Square in New York City for approximately \$1.28 billion in cash. On March 23, 2007, we completed the sale of the Long Wharf Marriott for approximately \$225.6 million in cash. On April 5, 2007 we completed the sale of Newport Office Park for approximately \$33.7 million in cash and on August 7, 2007, we completed the sale of Democracy Center for

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approximately \$184.5 million in cash. Interest income is projected to be between \$23 million and \$24 million for the fourth quarter of 2007, slightly lower than the third quarter due to the repayment of our mortgages on the 500 Carnegie series and Embarcadero Center Four prior to their stated maturities, offset by the proceeds from asset sales.

We expect that our aggregate distributions for the 2007 tax year will include, in addition to our regular quarterly distributions, at least that portion of the 2007 property sale proceeds necessary for us to avoid paying corporate level tax on the otherwise taxable gain. As our development activities intensify, the amount of our cash invested in these assets will result in a corresponding reduction in our interest income as well as an increase in our capitalized interest expense.

### ***Other Expenses***

#### *General and Administrative*

General and administrative expenses increased approximately \$10.1 million for the nine months ended September 30, 2007 compared to 2006. During the nine months ended September 30, 2007, we recognized additional expenses related to abandoned project costs of approximately \$4.5 million and moving expenses related to the relocation of our corporate office. The remaining increases include the final ramp up of our stock-based compensation, the change in the vesting periods to four years on grants issued after November 2006 and increases in base compensation. We anticipate our general and administrative expenses to be between approximately \$17.0 million and \$18.0 million for the fourth quarter of 2007.

Commencing in 2003, we issued restricted stock and/or LTIP Units, as opposed to granting stock options and restricted stock, under the 1997 Stock Option and Incentive Plan as our primary vehicle for employee equity compensation. An LTIP Unit is generally the economic equivalent of a share of our restricted stock. Employees vest in restricted stock and LTIP Units over a four- or five-year term (for awards granted between 2003 and November 2006, vesting is over a five-year term with annual vesting of 0%, 0%, 25%, 35% and 40%; and for awards granted after November 2006, vesting will occur in equal annual installments over a four-year term). Restricted stock and LTIP Units are valued based on observable market prices for similar instruments. Such value is recognized as an expense ratably over the corresponding employee service period. LTIP Units that were issued in January 2005 and any future LTIP Unit awards will be valued using an option pricing model in accordance with the provisions of SFAS No. 123R. To the extent restricted stock or LTIP Units are forfeited prior to vesting, the corresponding previously recognized expense is reversed as an offset to "stock-based compensation." Stock-based compensation associated with approximately \$11.3 million of restricted stock and LTIP Units granted in April 2006 and approximately \$18.5 million of restricted stock and LTIP Units granted in January 2007. The expense will be incurred ratably over the respective vesting period.

#### *Interest Expense*

Interest expense for the Total Property Portfolio decreased approximately \$9.2 million for the nine months ended September 30, 2007 compared to 2006. The decrease is due to (1) the repayment of outstanding mortgage debt in connection with the sale of Democracy Center in August 2007 and 280 Park Avenue in June 2006, which decreased interest expense by \$9.5 million, (2) the repayment of our mortgage loans collateralized by Capital Gallery, 191 Spring Street, 101 Carnegie Center, Seven Cambridge Center, Embarcadero Center Three and Embarcadero Center Four, which decreased interest expense by approximately \$12.2 million, and (3) an increase in capitalized interest costs which results in a decrease of interest expense of approximately \$11.9 million. These decreases were offset by (1) an increase of approximately \$4.4 million related to interest paid on the \$450 million unsecured exchangeable senior notes issued in the second quarter of 2006 by our Operating Partnership at a per annum interest rate of 3.75%, (2) an increase of approximately \$18.9 million related to interest paid on the \$862.5 million unsecured exchangeable senior notes issued in the first quarter of 2007 by our Operating Partnership at an effective per annum interest rate of 3.438% and (3) an increase of approximately \$1.9 million related to the acquisition of Kingstowne Towne Center on March 30, 2007. The remaining decrease is attributed to scheduled loan amortization on our outstanding debt.

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At September 30, 2007, our variable rate debt consisted of our construction loan at South of Market. The following summarizes our outstanding debt as of September 30, 2007 and September 30, 2006:

	September 30,	
	2007	2006
<i>(dollars in thousands)</i>		
<b>Debt Summary:</b>		
Balance		
Fixed rate	\$5,312,562	\$4,033,323
Variable rate	96,706	700,000
Total	<u>\$5,409,268</u>	<u>\$4,733,323</u>
Percent of total debt:		
Fixed rate	98.21%	85.21%
Variable rate	1.79%	14.79%
Total	<u>100.00%</u>	<u>100.00%</u>
GAAP Weighted-average interest rate at end of period:		
Fixed rate	5.60%	6.20%
Variable rate	6.91%	5.94%
Total	<u>5.62%</u>	<u>6.16%</u>

### *Depreciation and Amortization*

Depreciation and amortization expense for the Total Property Portfolio increased approximately \$13.1 million for the nine months ended September 30, 2007 compared to 2006. Approximately \$6.9 million related to increases in the Same Property Portfolio and approximately \$16.3 million related to the recent acquisition activity. An increase of approximately \$0.9 million was due to the placing in-service of our Seven Cambridge Center development project in the first quarter of 2006 and our 12290 Sunrise Valley development project in the second quarter of 2006 and approximately \$1.3 million was attributed to Properties Repositioned. These increases were offset by a decrease of approximately \$12.3 million due to the sales of Democracy Center in August 2007, 5 Times Square in February 2007 and 280 Park Avenue in June 2006.

### *Capitalized Costs*

Costs directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over their useful lives. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the nine months ended September 30, 2007 and 2006 were \$7.7 million and \$5.0 million, respectively. These costs are not included in the general and administrative expenses discussed above. We expect capitalized wages to increase with our increased development activity in 2007 and 2008. Interest capitalized for the nine months ended September 30, 2007 and 2006 was \$20.6 million and \$4.6 million, respectively. These costs are not included in the interest expense referenced above.

### *Losses from early extinguishments of debt*

On February 12, 2007, we refinanced our mortgage loan collateralized by 599 Lexington Avenue located in New York City. The new mortgage financing totaling \$750.0 million bears interest at a fixed interest rate of 5.57% per annum and matures on March 1, 2017. The net proceeds of the new loan were used to refinance the \$225.0 million mortgage loan on 599 Lexington Avenue and the \$475.0 million mortgage loan on Times Square Tower. In connection with the refinancing, the lien of the Times Square Tower mortgage was spread to 599 Lexington Avenue and released from Times Square Tower so that Times Square Tower is no longer encumbered.

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by any mortgage debt. There was no prepayment penalty associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately \$0.7 million consisting of the write-off of unamortized deferred financing costs. In conjunction with the sale of Democracy Center in Bethesda, Maryland on August 7, 2007, we repaid the mortgage financing collateralized by the property totaling approximately \$94.6 million. We paid a prepayment fee of approximately \$2.6 million associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately \$2.7 million consisting of the prepayment fee and the write-off of unamortized deferred financing costs.

For the nine months ended September 30, 2006, we repaid the construction and permanent financing collateralized by our Capital Gallery property and the construction financing collateralized by our Seven Cambridge Center property and, in connection with the sale of 280 Park Avenue, we legally defeased the mortgage indebtedness collateralized by 280 Park Avenue totaling approximately \$254.4 million. In connection with the defeasance of mortgage indebtedness at 280 Park Avenue we recognized a loss from early extinguishment of debt totaling approximately \$31.4 million consisting of the difference between the value of the U.S. Treasuries and the principal balance of the mortgage loan totaling approximately \$28.2 million and the write-off of unamortized deferred financing costs totaling approximately \$3.2 million. The construction financing at Seven Cambridge Center totaling approximately \$112.5 million was repaid using approximately \$7.5 million of available cash and \$105.0 million drawn under our Unsecured Line of Credit. There was no prepayment penalty associated with the repayment for Seven Cambridge Center. We recognized losses from early extinguishments of debt totaling approximately \$0.5 million consisting of the write-off of unamortized deferred financing costs. We repaid the construction and permanent financing at Capital Gallery totaling approximately \$34.0 million and \$49.7 million using available cash. We recognized losses from early extinguishment of debt totaling approximately \$0.2 million comprised of a prepayment penalty and the write-off of unamortized deferred finance costs.

### ***Income from Unconsolidated Joint Ventures***

For the nine months ended September 30, 2007, income from unconsolidated joint ventures decreased approximately \$3.5 million. On June 1, 2007, our Value-Added Fund sold Worldgate Plaza located in Herndon, Virginia for approximately \$109.0 million. Worldgate Plaza is an office complex consisting of approximately 322,000 net rentable square feet. Net cash proceeds totaled approximately \$50.5 million, of which our share was approximately \$20.3 million, after the repayment of the mortgage indebtedness of \$57.0 million. Our share of the gain is included as income in joint ventures was approximately \$15.5 million which amount reflects the achievement of certain return thresholds as provided for in the joint venture agreement. On October 1, 2007, our 505 9th Street joint venture project, a 323,000 net rentable square foot Class A office property located in Washington, D.C was placed in-service. In connection with placing this property in-service, we expect to consolidate this entity as of October 1, 2007 due to the involvement we have in the venture once the property is operational.

On September 15, 2006, a joint venture in which we have a 35% interest sold 265 Franklin Street located in Boston, Massachusetts, at a sale price of approximately \$170.0 million. Net cash proceeds totaled approximately \$108.3 million, of which our share was approximately \$37.9 million, after the repayment of mortgage indebtedness of approximately \$60.8 million and unfunded tenant obligations and other closing costs of approximately \$0.9 million. The venture recognized a gain on sale of real estate of approximately \$51.4 million, of which our share was approximately \$18.0 million, and a loss from early extinguishment of debt of approximately \$0.2 million, of which our share was \$0.1 million.

### ***Income from discontinued operations, net of minority interest***

For the nine months ended September 30, 2007 and September 30, 2006, the properties included in discontinued operations consisted of the Long Wharf Marriott hotel in Boston, Massachusetts and Newport Office Park in Quincy, Massachusetts.



***Minority interest in property partnership***

Minority interest in property partnership consisted of the outside equity interests in the venture that owned Citigroup Center. This venture was consolidated with our financial results because we exercised control over the entity. Due to the redemption of the minority interest holder at Citigroup Center on May 31, 2006, minority interest in property partnership no longer reflects an allocation to the minority interest holder.

***Minority interest in Operating Partnership***

Minority interest in Operating Partnership decreased \$2.5 million for the nine months ended September 30, 2007 compared to 2006 related to the minority interest in our Operating Partnership's income allocation related to an underlying increase in allocable income. This increase was offset by decreases related to the redemption in ownership interests for the nine months ended September 30, 2007.

***Gains on sales of real estate, net of minority interest***

On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately \$280.5 million. Net cash proceeds totaled approximately \$184.5 million, after the repayment of the mortgage indebtedness of approximately \$94.6 million and closing costs of approximately \$1.4 million, resulting in a gain on sale of approximately \$168.3 million (net of minority interest share of approximately \$29.9 million). Due to our continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations.

On February 15, 2007, we sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately \$1.28 billion in cash. Net cash proceeds totaled approximately \$1.23 billion, resulting in a gain on sale of approximately \$605.2 million (net of minority interest share of approximately \$108.4 million). In conjunction with the sale, we have agreed to provide to the buyer monthly revenue support from the closing date until December 31, 2008. The aggregate amount of the revenue support payments was approximately \$1.6 million and has been recorded as a purchase price adjustment and included in Other Liabilities within our Consolidated Balance Sheets. As of September 30, 2007, the remaining revenue support obligation totaled approximately \$0.2 million.

On June 6, 2006, we sold 280 Park Avenue, a 1,179,000 net rentable square foot Class A office property located in midtown Manhattan, New York, for approximately \$1.2 billion. Net proceeds totaled approximately \$875 million after legal defeasance of indebtedness secured by the property (consisting of approximately \$254.4 million of principal indebtedness and approximately \$28.2 million of related defeasance costs) and the payment of transfer taxes, brokers' fees and other customary closing costs. We recognized a gain on sale of approximately \$581.3 million (net of minority interest share of approximately \$110.0 million). In January 2006 we recognized a gain on the sale of a parcel of land at the Prudential Center located in Boston, Massachusetts which had been accounted for previously as a financing transaction. During January 2006, the transaction qualified as a sale for financial reporting purposes.

During the nine months ended September 30, 2007, we signed a new qualifying lease for approximately 22,000 net rentable square feet of our remaining 47,659 net rentable square foot master lease obligation related to the 2006 sale of 280 Park Avenue resulting in the recognition of approximately \$15.4 million (net of minority interest share of approximately \$2.6 million) as additional gain on sale of real estate. We had deferred approximately \$67.3 million of the gain on sale of 280 Park Avenue, which amount represented the maximum obligation under the master lease. As of September 30, 2007, the remaining master lease obligation totaled approximately \$26.5 million.

***Gains on sales of real estate from discontinued operations, net of minority interest***

On March 23, 2007, we sold the Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts, for approximately \$231.0 million. Net cash proceeds totaled approximately \$225.6 million, resulting in a gain on

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sale of approximately \$162.3 million (net of minority interest share of approximately \$28.6 million). On April 5, 2007, we sold Newport Office Park, an approximately 172,000 net rentable square foot Class A office property located in Quincy, Massachusetts, for approximately \$37.0 million. Net cash proceeds totaled approximately \$33.7 million, resulting in a gain on sale of approximately \$11.5 million (net of minority interest share of approximately \$2.1 million).

### ***Comparison of the three months ended September 30, 2007 to the three months ended September 30, 2006.***

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 112 properties totaling approximately 28.0 million net rentable square feet of space. The Same Property Portfolio includes properties acquired or placed in-service on or prior to July 1, 2006 and owned through September 30, 2007. In addition, the Same Property Portfolio includes our Cambridge Center Marriott hotel property, but does not include the Long Wharf Marriott hotel property, which was sold on March 23, 2007. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after July 1, 2006 or disposed of on or prior to September 30, 2007. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the three months ended September 30, 2007 and 2006 with respect to the properties which were acquired, placed in-service, repositioned or sold.

During July 2006, we placed in-service our Capital Gallery expansion project, consisting of a ten-story addition totaling approximately 319,000 net rentable square feet of Class A office space located in Washington, D.C. The project entailed removing a three-story, low-rise section of the property from in-service status and developing it into a ten-story office building resulting in a total complex size of approximately 615,000 net rentable square feet. In April 2006, tenants began to take initial occupancy. This property is included in Properties Repositioned for the three months ended September 30, 2007 and September 30, 2006.

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	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
	2007	2006	Increase/ (Decrease)	% Change	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	Increase/ (Decrease)	% Change
(dollars in thousands)																
<b>Rental Revenue:</b>																
Rental Revenue	\$312,162	\$298,580	\$ 13,582	4.55%	\$1,946	\$22,768	\$11,151	\$1,282	\$ —	\$ —	\$6,461	\$5,687	\$331,720	\$328,317	\$ 3,403	1.04%
Termination Income	742	2,700	(1,958)	(72.52)%	—	992	—	—	—	—	—	—	742	3,692	(2,950)	(79.90)%
Total Rental Revenue	312,904	301,280	11,624	3.86%	1,946	23,760	11,151	1,282	—	—	6,461	5,687	332,462	332,009	453	0.14%
Real Estate Operating Expenses	108,189	103,740	4,449	4.29%	754	5,811	3,392	46	—	—	1,805	1,579	114,140	111,176	2,964	2.67%
Net Operating Income, excluding hotels	204,715	197,540	7,175	3.63%	1,192	17,949	7,759	1,236	—	—	4,656	4,108	218,322	220,833	(2,511)	(1.14)%
Hotel Net Operating Income(1)	2,371	1,980	391	19.75%	—	—	—	—	—	—	—	—	2,371	1,980	391	19.75%
Consolidated Net Operating Income(1)	207,086	199,520	7,566	3.79%	1,192	17,949	7,759	1,236	—	—	4,656	4,108	220,693	222,813	(2,120)	(0.95)%
<b>Other Revenue:</b>																
Development and Management Services	—	—	—	—	—	—	—	—	—	—	—	—	5,318	4,558	760	16.67%
Interest and Other	—	—	—	—	—	—	—	—	—	—	—	—	25,081	14,611	10,470	71.66%
Total Other Revenue	—	—	—	—	—	—	—	—	—	—	—	—	30,399	19,169	11,230	58.58%
<b>Other Expenses:</b>																
General and administrative expense	—	—	—	—	—	—	—	—	—	—	—	—	20,189	12,739	7,450	58.48%
Interest	—	—	—	—	—	—	—	—	—	—	—	—	69,929	73,571	(3,642)	(4.95)%
Depreciation and amortization	64,750	65,113	(363)	(0.56)%	—	4,086	5,781	569	—	—	1,084	790	71,616	70,558	1,058	1.50%
Loss from early extinguishments of debt	—	—	—	—	—	—	—	—	—	—	—	—	2,695	208	2,487	1,195.67%
Total Other Expenses	64,750	65,113	(363)	(0.56)%	—	4,086	5,781	569	—	—	1,084	790	164,429	157,076	7,353	4.68%
Income before minority interests	\$142,336	\$134,407	\$ 7,929	5.90%	\$1,192	\$13,863	\$ 1,978	\$ 667	\$ —	\$ —	\$3,572	\$3,318	\$ 86,663	\$ 84,906	\$ 1,757	2.07%
Income from unconsolidated joint ventures	\$ 1,469	\$ 2,309	\$ (840)	(36.38)%	\$ (76)	\$17,891	\$ (3)	\$ —	\$ —	\$ —	\$ —	\$ —	1,390	20,200	(18,810)	(93.12)%
Income from discontinued operations, net of minority interest	\$ —	\$ —	\$ —	—	\$ —	\$ 3,371	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—	3,371	(3,371)	(100.0)%
Minority interest in property partnership	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Minority interest in Operating Partnership	—	—	—	—	—	—	—	—	—	—	—	—	(14,178)	(18,404)	4,226	22.96%
Gains on sales of real estate, net of minority interest	—	—	—	—	—	—	—	—	—	—	—	—	168,495	17,889	150,606	841.89%
Net Income available to common shareholders	—	—	—	—	—	—	—	—	—	—	—	—	\$242,370	\$107,962	\$ 134,408	124.50%

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 37. Hotel Net Operating Income for the three months ended September 30, 2007 and 2006 are comprised of Hotel Revenue of \$8,646 and \$8,319 less Hotel Expenses of \$6,275 and \$6,339 respectively per the Consolidated Income Statement.

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### **Rental Revenue**

The increase of approximately \$3.4 million in the Total Property Portfolio is comprised of increases and decreases within the four categories that comprise our Total Property Portfolio. Rental revenue from the Same Property Portfolio increased approximately \$13.6 million, Properties Sold decreased approximately \$20.8 million, Properties Acquired increased approximately \$9.8 million and Properties Repositioned increased approximately \$0.8 million.

We incur certain tenant specific property costs for which we are reimbursed from our tenants. Starting in 2007, we have included these reimbursements in rental revenue and included the tenant specific operating cost within real estate operating expenses. This income and expense classification in 2007 results in a presented increase to comparable rental revenue and real estate operating expenses, however does not impact our consolidated net operating income. For the three months ended September 30, 2007 and 2006, the rental income and real estate operating expense gross up was approximately \$2.3 million and \$3.8 million, respectively.

Rental revenue from the Same Property Portfolio increased approximately \$13.6 million for the three months ended September 30, 2007 compared to 2006. Included in rental revenue is an overall increase in base rental revenue of approximately \$11.3 million offset by a decrease of approximately \$2.4 million in straight line rent. Approximately \$3.1 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants which correlates with the increase in operating expenses. During the third quarter we recognized unanticipated revenue related to holdover rent in Princeton, percentage rent and early rent commencement in Boston as well as operating savings from lower energy costs and deferred repairs and maintenance expense. We expect that our straight line rent and FAS 141 adjustment to rental revenue will be approximately \$9.0 million for the fourth quarter.

The acquisitions of 6601 & 6605 Springfield Center Drive, 103 Fourth Avenue and Kingstowne Towne Center during 2007, as well as the acquisitions of Four and Five Cambridge Center and 3200 Zanker Road during 2006, increased rental revenue from Properties Acquired by approximately \$9.8 million for the three months ended September 30, 2007 as detailed below:

<u>Property</u>	<u>Date Acquired</u>	<u>Rental Revenue for the three months ended September 30</u>		
		<u>2007</u>	<u>2006</u>	<u>Change</u>
Kingstowne Towne Center	March 30, 2007	\$ 3,675	\$ —	\$ 3,675
103 Fourth Avenue	January 29, 2007	185	—	185
6601 & 6605 Springfield Center Drive	January, 2007	79	—	79
Four and Five Cambridge Center	November 30, 2006	4,606	—	4,606
3200 Zanker Road	August 10, 2006	2,606	1,282	1,324
<b>Total</b>		<u>\$ 11,151</u>	<u>\$ 1,282</u>	<u>\$ 9,869</u>

Rental revenue from Properties Repositioned for the three months ended September 30, 2007 increased approximately \$0.8 million over the three months ended September 30, 2006. Our Capital Gallery expansion project is included in Properties Repositioned for the three months ended September 2007 and September 30, 2006. In April 2006, tenants began to take occupancy and we placed our Capital Gallery expansion project in-service in July 2006.

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The aggregate increase in rental revenue was offset by the sales of Democracy Center in August 2007, 5 Times Square in February 2007 and 280 Park Avenue in June 2006. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property. Rental Revenue from Properties Sold decreased by approximately \$20.8 million, as detailed below:

Property	Date Sold	Rental Revenue for the three months ended September 30		
		2007	2006 <i>(in thousands)</i>	Change
Democracy Center	August 7, 2007	\$ 1,946	\$ 3,868	\$ (1,922)
5 Times Square	February 15, 2007	—	18,900	(18,900)
280 Park Avenue	June 6, 2006	—	—	—
<b>Total</b>		<u>\$ 1,946</u>	<u>\$ 22,768</u>	<u>\$ (20,822)</u>

### **Termination Income**

Termination income for the three months ended September 30, 2007 was related to six tenants across the Total Property Portfolio that terminated their leases, and we recognized termination income totaling approximately \$0.7 million. This compared to termination income of approximately \$3.7 million for the three months ended September 30, 2006 related to six tenants. We currently anticipate realizing approximately \$1.0 million in termination income for the fourth quarter of 2007.

### **Real Estate Operating Expenses**

The \$3.0 million increase in property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Total Property Portfolio is comprised of increases and decreases within the four categories that comprise our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately \$4.4 million, Properties Sold decreased approximately \$5.0 million, Properties Acquired increased approximately \$3.3 million and Properties Repositioned increased approximately \$0.2 million.

We incur certain tenant specific property costs for which we are reimbursed from our tenants. Starting in 2007, we have included these reimbursements in rental revenue and included the tenant specific operating cost within real estate operating expenses. This income and expense classification in 2007 results in a presented increase to comparable rental revenue and real estate operating expenses, however does not impact our consolidated net operating income. For the three months ended September 30, 2007 and 2006, the rental income and real estate operating expense gross up was approximately \$2.3 million and \$3.8 million, respectively.

Operating expenses from the Same Property Portfolio increased approximately \$4.4 million for the three months ended September 30, 2007 compared to 2006. Included in Same Property Portfolio operating expenses is an increase in repairs and maintenance of approximately \$1.2 million. In addition, real estate taxes increased approximately \$1.9 million, or 4.6%, due to increased real estate tax assessments, and increased other administrative property expenses approximately \$1.5 million.

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The acquisitions of 6601 & 6605 Springfield Center Drive, 103 Fourth Avenue, Springfield Metro Center and Kingstowne Towne Center during 2007, as well as the acquisitions of Four and Five Cambridge Center and 3200 Zanker Road during 2006, increased operating expenses from Properties Acquired by approximately \$3.3 million for the three months ended September 30, 2007 as detailed below:

Property	Date Acquired	Real Estate Operating Expenses for the three months ended September 30		
		2007	2006	Change
		<i>(in thousands)</i>		
Springfield Metro Center	April 11, 2007	\$ 30	\$ —	\$ 30
Kingstowne Towne Center	March 30, 2007	1,006	—	1,006
103 Fourth Avenue	January 29, 2007	136	—	136
6601 & 6605 Springfield Center Drive	January, 2007	41	—	41
Four and Five Cambridge Center	November 30, 2006	1,749	—	1,749
3200 Zanker Road	August 10, 2006	430	46	384
<b>Total</b>		<b>\$ 3,392</b>	<b>\$ 46</b>	<b>\$ 3,346</b>

Operating expenses from Properties Repositioned for the three months ended September 30, 2007 increased approximately \$0.2 million over the three months ended September 30, 2006. Our Capital Gallery expansion project is included in Properties Repositioned for the three months ended September 30, 2007 and September 30, 2006. In April 2006, tenants began to take occupancy and we placed our Capital Gallery expansion project in-service in July 2006.

A decrease of approximately \$5.0 million in the Total Property Portfolio operating expenses was due to the sales of Democracy Center in August 2007, 5 Times Square in February 2007 and 280 Park Avenue in June 2006, as detailed below. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property.

Property	Date Sold	Real Estate Operating Expenses for the three months ended September 30		
		2007	2006	Change
		<i>(in thousands)</i>		
Democracy Center	August 7, 2007	\$ 754	\$ 1,675	\$ (921)
5 Times Square	February 15, 2007	—	3,909	(3,909)
280 Park Avenue	June 6, 2006	—	227	(227)
<b>Total</b>		<b>\$ 754</b>	<b>\$ 5,811</b>	<b>\$ (5,057)</b>

We continue to review and monitor the impact of rising insurance and energy costs, as well as other factors, on our operating budgets for fiscal year 2007. Because some operating expenses are not recoverable from tenants, an increase in operating expenses due to one or more of the foregoing factors could have an adverse effect on our results of operations.

### **Hotel Net Operating Income**

Net operating income for the Cambridge Center Marriott hotel property increased approximately \$0.4 million for the three months ended September 30, 2007 as compared to 2006. For the three months ended September 30, 2007 and 2006, the operations of the Long Wharf Marriott has been included as part of discontinued operations due to its sale on March 23, 2007. We expect the Cambridge hotel to contribute between \$3.5 million and \$4.0 million to net operating income for the fourth quarter of 2007.

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The following reflects our occupancy and rate information for the Cambridge Center Marriott hotel for the three months ended September 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Occupancy	86.0%	86.4%	(0.5%)
Average daily rate	\$209.75	\$191.13	9.7%
Revenue per available room, REVPAR	\$180.46	\$165.14	9.3%

### ***Development and Management Services***

Development and Management Services income increased approximately \$0.8 million for the three months ended September 30, 2007 compared to 2006. The increase is attributed to higher fee income due to a leasing commission earned under our management contract with the buyer of 280 Park Avenue and greater work order income in New York City. We have maintained management contracts following the sale of Democracy Center on August 7, 2007, 5 Times Square on February 15, 2007 and 280 Park Avenue on June 6, 2006. As we complete our joint venture project at 505 9<sup>th</sup> Street and several large tenant improvement projects we expect development and management fee income to decrease. We expect third party fee income to be between \$3.5 million to \$4.0 million for the fourth quarter of 2007.

### ***Interest and Other Income***

Interest and other income increased approximately \$10.5 million for the three months ended September 30, 2007 compared to 2006 as a result of higher overall interest rates and increased average cash balances. In February 2007, our Operating Partnership issued \$862.5 million of 2.875% unsecured exchangeable senior notes. On February 15, 2007, we completed the sale of our long-term leasehold interest in 5 Times Square in New York City for approximately \$1.28 billion in cash. On March 23, 2007, we completed the sale of the Long Wharf Marriott for approximately \$225.6 million in cash. On April 5, 2007 we completed the sale of Newport Office Park for approximately \$33.7 million in cash and on August 7, 2007, we completed the sale of Democracy Center for approximately \$184.5 million in cash. Interest income is projected to be between \$23 million and \$24 million for the fourth quarter of 2007, slightly lower than the third quarter due to the repayment of our mortgages on the 500 Carnegie series and Embarcadero Center Four prior to their stated maturities, offset by the proceeds from asset sales.

We expect that our aggregate distributions for the 2007 tax year will include, in addition to our regular quarterly distributions, at least that portion of the 2007 property sale proceeds necessary for us to avoid paying corporate level tax on the otherwise taxable gain. As our development activities intensify, the amount of our cash invested in these assets will result in a corresponding reduction in our interest income as well as an increase in our capitalized interest expense.

### ***Other Expenses***

#### ***General and Administrative***

General and administrative expenses increased approximately \$7.5 million for the three months ended September 30, 2007 compared to 2006. During the three months ended September 30, 2007 we recognized additional expense related to abandoned project costs of approximately \$4.5 million. The remaining increase includes the final ramp up on our stock based compensation, the change in the vesting periods to four years on grants issued after November 2006 and increases in base compensation. We anticipate our general and administrative expenses to be between approximately \$17.0 million and \$18.0 million for the fourth quarter of 2007.

Commencing in 2003, we issued restricted stock and/or LTIP Units, as opposed to granting stock options and restricted stock, under the 1997 Stock Option and Incentive Plan as our primary vehicle for employee equity compensation. An LTIP Unit is generally the economic equivalent of a share of our restricted stock. Employees vest in restricted stock and LTIP Units over a four- or five-year term (for awards granted between 2003 and November 2006, vesting is over a five-year term with annual vesting of 0%, 0%, 25%, 35% and 40%; and for awards granted after November 2006, vesting will occur in equal annual installments over a four-year term). Restricted stock and LTIP Units are valued based on observable market prices for similar instruments. Such

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value is recognized as an expense ratably over the corresponding employee service period. LTIP Units that were issued in January 2005 and any future LTIP Unit awards will be valued using an option pricing model in accordance with the provisions of SFAS No. 123R. To the extent restricted stock or LTIP Units are forfeited prior to vesting, the corresponding previously recognized expense is reversed as an offset to "stock-based compensation." Stock-based compensation associated with approximately \$11.3 million of restricted stock and LTIP Units granted in April 2006 and approximately \$18.5 million of restricted stock and LTIP Units granted in January 2007. The expense will be incurred ratably over the respective vesting period.

### *Interest Expense*

Interest expense for the Total Property Portfolio decreased approximately \$3.6 million for the three months ended September 30, 2007 compared to 2006. The decrease is due to (1) the repayment of outstanding mortgage debt in connection with the sale of Democracy Center in August 2007 which decreased interest expense by \$1.0 million, (2) the repayment of our mortgage loans collateralized by Capital Gallery, Embarcadero Center Three and Embarcadero Center Four, which decreased interest expense approximately \$4.1 million, and (3) an increase in capitalized interest costs which resulted in a decrease of interest expense of approximately \$6.0 million. These decreases were offset by (1) an increase of approximately \$7.3 million related to interest paid on the \$862.5 million unsecured exchangeable senior notes issued in the first quarter of 2007 by our Operating Partnership at an effective per annum interest rate of 3.438% and (2) an increase of approximately \$1.0 million related to the acquisition of Kingstowne Towne Center on March 30, 2007. The remaining decrease is attributed to scheduled loan amortization on our outstanding debt.

At September 30, 2007, our variable rate debt consisted of our construction loan at South of Market. The following summarizes our outstanding debt as of September 30, 2007 and September 30, 2006:

	<u>September 30,</u>	
	<u>2007</u>	<u>2006</u>
	<i>(dollars in thousands)</i>	
<b>Debt Summary:</b>		
Balance		
Fixed rate	\$5,312,562	\$4,033,323
Variable rate	96,706	700,000
Total	<u>\$5,409,268</u>	<u>\$4,733,323</u>
Percent of total debt:		
Fixed rate	98.21%	85.21%
Variable rate	1.79%	14.79%
Total	<u>100.00%</u>	<u>100.00%</u>
GAAP Weighted-average interest rate at end of period:		
Fixed rate	5.60%	6.20%
Variable rate	6.91%	5.94%
Total	<u>5.62%</u>	<u>6.16%</u>

### *Depreciation and Amortization*

Depreciation and amortization expense for the Total Property Portfolio increased approximately \$1.1 million for the three months ended September 30, 2007 compared to 2006. Approximately \$0.4 million related to decreases in the Same Property Portfolio and approximately \$5.2 million related to the recent acquisition activity. An increase of approximately \$0.3 million was attributed to Properties Repositioned. These increases were offset by a decrease of approximately \$4.1 million due to the sales of Democracy Center in August 2007, 5 Times Square in February 2007 and 280 Park Avenue in June 2006.



***Capitalized Costs***

Costs directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over their useful lives. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the three months ended September 30, 2007 and 2006 were \$2.6 million and \$2.1 million, respectively. These costs are not included in the general and administrative expenses discussed above. We expect capitalized wages to increase with our increased development activity into 2007 and 2008. Interest capitalized for the three months ended September 30, 2007 and 2006 was \$8.4 million and \$1.6 million, respectively. These costs are not included in the interest expense referenced above.

***Losses from early extinguishments of debt***

In conjunction with the sale of Democracy Center in Bethesda, Maryland on August 7, 2007, we repaid the mortgage financing collateralized by the property totaling approximately \$94.6 million. We paid a prepayment fee of approximately \$2.6 million associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately \$2.7 million consisting of the prepayment fee and the write-off of unamortized deferred financing costs.

For the three months ended September 30, 2006, we repaid the construction and permanent financing at Capital Gallery totaling approximately \$34.0 million and \$49.7 million using available cash. We recognized losses from early extinguishment of debt totaling approximately \$0.2 million comprised of a prepayment penalty and the write-off of unamortized deferred finance costs.

***Income from Unconsolidated Joint Ventures***

On October 1, 2007, our 505 9th Street joint venture project, a 323,000 net rentable square foot Class A office property located in Washington, D.C., was placed in-service. In connection with placing this property in-service, we expect to consolidate this entity as of October 1, 2007 due to the involvement we have in the venture once the property is operational. On October 17, 2007, the construction financing on the property was converted to a ten-year fixed rate loan. The construction financing was comprised of a (1) \$60.0 million loan commitment, which bore interest at a fixed rate of 5.73% per annum, with an outstanding balance of approximately \$50.5 million, and (2) a \$35.0 million loan commitment, which bore interest at a variable rate equal to LIBOR plus 1.25% per annum, with an outstanding balance of approximately \$29.0 million. The new mortgage financing totaling \$130.0 million bears interest at a fixed interest rate of 5.73% per annum and matures on November 1, 2017.

For the three months ended September 30, 2007, income from joint ventures decreased approximately \$18.8 million. On September 15, 2006, a joint venture in which we have a 35% interest sold 265 Franklin Street located in Boston, Massachusetts, at a sale price of approximately \$170.0 million. Net cash proceeds totaled approximately \$108.3 million, of which our share was approximately \$37.9 million, after the repayment of mortgage indebtedness of approximately \$60.8 million and unfunded tenant obligations and other closing costs of approximately \$0.9 million. The venture recognized a gain on sale of real estate of approximately \$51.4 million, of which our share was approximately \$18.0 million and a loss from early extinguishment of debt of approximately \$0.2 million, of which our share was \$0.1 million.

***Income from discontinued operations, net of minority interest***

For the three months ended September 30, 2007 and 2006, discontinued operations consisted of the Long Wharf Marriott hotel in Boston, Massachusetts and Newport Office Park in Quincy, Massachusetts.

***Minority interest in Operating Partnership***

Minority interest in Operating Partnership decreased approximately \$4.2 million for the three months ended September 30, 2007 compared to 2006 related to the minority interest in our Operating Partnership's income allocation related to an underlying increase in allocable income. This increase was offset by decreases related to the redemption in ownership interests for the three months ended September 30, 2007.

### ***Gains on sales of real estate, net of minority interest***

On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately \$280.5 million. Net cash proceeds totaled approximately \$184.5 million, after the repayment of the mortgage indebtedness of approximately \$94.6 million and closing costs of approximately \$1.4 million, resulting in a gain on sale of approximately \$168.3 million (net of minority interest share of approximately \$29.9 million). Due to our continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations.

Pursuant to the purchase and sale agreement related to the sale of 280 Park Avenue, we entered into a master lease agreement with the buyer at closing. Under the master lease agreement, we have guaranteed that the buyer will receive at least a minimum amount of base rent from approximately 74,340 square feet of space during the ten-year period following the expiration of the current leases for this space. The current leases for this space are scheduled to expire at various times between June 2006 and October 2007. The aggregate amount of base rent we have guaranteed over the entire period from 2006 to 2017 is approximately \$67.3 million. During the three months ended September 30, 2006, we signed new qualifying leases for 26,681 net rentable square feet of the 74,340 net rentable square foot master lease obligation, resulting in the recognition of approximately \$17.6 million (net of minority interest share of approximately \$3.3 million) of additional gain on sale of real estate. As of September 30, 2007, the master lease obligation totaled approximately \$46.4 million.

## **Liquidity and Capital Resources**

### ***General***

Our principal liquidity needs for the next twelve months are to:

- fund normal recurring expenses;
- fund current development costs not covered under construction loans;
- meet debt service and principal repayment obligations;
- fund capital expenditures, including tenant improvements and leasing costs;
- fund new property acquisitions; and
- make the minimum distribution required to maintain our REIT qualification under the Internal Revenue Code of 1986, as amended.

On December 15, 2006, our Board of Directors declared a special cash dividend of \$5.40 per common share payable on January 30, 2007 to shareholders of record as of the close of business on December 29, 2006. The decision to declare a special dividend was the result of the sales of assets in 2006, including 280 Park Avenue and 265 Franklin Street. The Board of Directors did not change our policy with respect to regular quarterly dividends. The payment of the regular quarterly dividend of \$0.68 per share and the special dividend of \$5.40 per share resulted in a total payment of \$6.08 per share on January 30, 2007.

We expect that our aggregate distributions for the 2007 tax year will include, in addition to our regular quarterly distributions, at least that portion of 2007 property sale proceeds necessary for us to avoid paying corporate level tax on the otherwise taxable gain, currently estimated to be approximately \$810 million. Under applicable tax rules, distributions for the 2007 tax year must be paid by January 30, 2008. The sale of our Long Wharf Marriott hotel and Democracy Center were completed and we expect to complete the sale of Orbital Science Campus and Broad Run Business Park, Building E properties as part of a "like-kind exchange" under Section 1031 of the Internal Revenue Code.

We repaid the mortgage loans secured by 504, 506, 508 and 510 Carnegie Center properties on October 1, 2007, prior to their natural maturities. These repayments do not have any prepayment penalties and were made using an aggregate of approximately \$65.0 million of cash.

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We believe that our liquidity needs will be satisfied using cash on hand, cash flows generated by operations and provided by financing activities, as well as cash generated from asset sales. Base rental revenue, recovery income from tenants, other income from operations, available cash balances, draws on our unsecured line of credit and refinancing of maturing indebtedness are our principal sources of capital used to pay operating expenses, debt service and principal repayment obligations, recurring capital expenditures and the minimum distribution required to maintain our REIT qualification. We seek to increase income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. Our sources of revenue also include third-party fees generated by our office real estate management, leasing, development and construction businesses. Consequently, we believe our revenue, together with proceeds from financing activities, will continue to provide the necessary funds for our short-term liquidity needs. However, material changes in these factors may adversely affect our net cash flows. Such changes, in turn, could adversely affect our ability to fund distributions, debt service and principal repayment obligations and tenant improvements. In addition, a material adverse change in our cash provided by operations may affect our ability to comply with the financial performance covenants under our unsecured line of credit and unsecured senior notes.

Our principal liquidity needs for periods beyond twelve months are for the costs of developments, possible property acquisitions, scheduled debt maturities, major renovations, expansions and other non-recurring capital improvements. We expect to satisfy these needs using one or more of the following:

- construction loans;
- long-term secured and unsecured indebtedness (including unsecured exchangeable indebtedness);
- income from operations;
- income from joint ventures;
- sales of real estate;
- issuances of our equity securities and/or additional preferred or common units of partnership interest in BPLP; and
- our unsecured revolving line of credit or other short-term bridge facilities.

We draw on multiple financing sources to fund our long-term capital needs. Our unsecured line of credit is utilized primarily as a bridge facility to fund acquisition opportunities, to refinance outstanding indebtedness and to meet short-term development and working capital needs. We generally fund our development projects with construction loans that may be partially guaranteed by BPLP, our Operating Partnership, until project completion or lease-up thresholds are achieved.

To the extent that we continue to sell assets and cannot efficiently use the proceeds for either our development activities or attractive acquisitions, we would, at the appropriate time, decide whether it is better to declare a special dividend, adopt a stock repurchase program, reduce our indebtedness or retain the cash for future investment opportunities. Such a decision will depend on many factors including, among others, the timing, availability and terms of development and acquisition opportunities, our then-current and anticipated leverage, the price of our common stock and REIT distribution requirements. At a minimum, we expect that we would distribute at least that amount of proceeds necessary for us to avoid paying corporate level tax on the applicable gains realized from any asset sales.

### ***Cash Flow Summary***

The following summary discussion of our cash flows is based on the consolidated statements of cash flows and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were \$1.9 billion and \$1.0 billion at September 30, 2007 and 2006, respectively, representing an increase of \$900 million. The increase in cash and cash equivalents was mainly attributed to net

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proceeds from the sale of Democracy Center, 5 Times Square and Long Wharf Marriott and proceeds from our offering of unsecured exchangeable senior notes offset by dividends and distributions. The following table sets forth increases and decreases in cash flows:

	Nine months ended September 30		Increase (Decrease)
	2007	2006 (in thousands)	
Net cash provided by operating activities	\$ 453,123	\$383,037	\$ 70,086
Net cash provided by investing activities	1,053,709	491,676	562,033
Net cash provided by (used in) financing activities	(338,422)	(87,183)	251,239

Our principal source of cash flow is related to the operation of our office properties. The average term of our tenant leases is approximately 7.3 years with occupancy rates historically in the range of 92% to 98%. Our properties provide a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements. In addition, over the past two years, we have raised capital through the sale of some of our properties and raised proceeds from secured and unsecured borrowings.

In 2007, we expect our total dividends to exceed our cash flow from operating activities due to the special dividend which was declared in December 2006 and paid to common stockholders and common unitholders of BPLP on January 30, 2007. The cash flows distributed were generated from sales of real estate assets and proceeds from the sales are included as part of cash flows from investment activities. Dividends will generally exceed cash flows from operating activities during periods in which we sell significant real estate assets and distribute gains on sale that would otherwise be taxable.

Cash is used in investing activities to fund acquisitions, development and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings that meet our investment criteria. Cash provided by investing activities for the nine months ended September 30, 2007 consisted of the following:

	Nine months ended September 30, 2007
	(in thousands)
Net proceeds from the sales of real estate	\$ 1,773,125
Net investments in unconsolidated joint ventures	(5,315)
Acquisitions/additions to real estate	(692,348)
Recurring capital expenditures	(19,857)
Hotel improvements, equipment upgrades and replacements	(1,060)
Planned non-recurring capital expenditures associated with acquisition properties	(836)
Net cash provided by investing activities	\$ 1,053,709

Cash used in financing activities for the nine months ended September 30, 2007 totaled approximately \$338.4 million. This consisted primarily of the \$840 million of net proceeds from our offering of 2.875% unsecured exchangeable senior notes and proceeds from mortgage notes payable, offset by the repayment of our Embarcadero Center Four mortgage loan, Times Square Tower mortgage loan and other mortgage notes payable, our secured draw under our Unsecured Line of Credit, as well as the payments of dividends and distributions to shareholders and the unitholders of our Operating Partnership. Future debt payments are discussed below under the heading "Debt Financing."

### **Capitalization**

At September 30, 2007, our total consolidated debt was approximately \$5.4 billion. The GAAP weighted-average annual interest rate on our consolidated indebtedness was 5.62% and the weighted-average maturity was approximately 5.3 years.

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Debt to total market capitalization ratio, defined as total consolidated debt as a percentage of the market value of our outstanding equity securities plus our total consolidated debt, is a measure of leverage commonly used by analysts in the REIT sector. Our total market capitalization was approximately \$20.1 billion at September 28, 2007. Total market capitalization was calculated using the September 30, 2007 closing stock price of \$103.90 per common share and the following: (1) 119,253,212 shares of our common stock, (2) 20,285,974 outstanding common units of partnership interest in Boston Properties Limited Partnership (excluding common units held by Boston Properties, Inc.), (3) an aggregate of 1,460,688 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in Boston Properties Limited Partnership, (4) an aggregate of 676,192 common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, and (5) our consolidated debt totaling approximately \$5.4 billion. Our total consolidated debt at September 30, 2007 represented approximately 26.87% of our total market capitalization. This percentage will fluctuate with changes in the market price of our common stock and does not necessarily reflect our capacity to incur additional debt to finance our activities or our ability to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the debt to total market capitalization ratio may provide investors with an alternate indication of leverage, so long as it is evaluated along with other financial ratios and the various components of our outstanding indebtedness.

### *Debt Financing*

As of September 30, 2007, we had approximately \$5.4 billion of outstanding indebtedness, representing 26.87% of our total market capitalization as calculated above consisting of (1) \$1.472 billion in publicly traded unsecured debt having a weighted-average interest rate of 5.95% per annum and maturities in 2013 and 2015; (2) \$450 million of publicly traded exchangeable unsecured debt having an interest rate of 3.75% per annum, an initial optional redemption date in 2013 and maturity in 2036; (3) \$843.1 million of publicly traded exchangeable unsecured debt having an interest rate of 2.875% per annum (an effective rate of 3.438% per annum) having an initial optional redemption in 2012 and maturing in 2037; and (4) \$2.6 billion of property-specific mortgage debt having a GAAP weighted-average interest rate of 6.40% per annum and weighted-average term of 5.0 years. The table below summarizes our mortgage notes payable, our senior unsecured notes and our Unsecured Line of Credit at September 30, 2007:

	September 30	
	2007	2006
(dollars in thousands)		
<b>DEBT SUMMARY:</b>		
Balance		
Fixed rate mortgage notes payable	\$2,547,687	\$2,111,953
Variable rate mortgage notes payable	96,706	700,000
Unsecured senior notes, net of discount	1,471,801	1,471,370
Unsecured exchangeable senior notes	1,293,074	450,000
Unsecured line of credit	—	—
Total	<u>\$5,409,268</u>	<u>\$4,733,323</u>
Percent of total debt:		
Fixed rate	98.21%	85.21%
Variable rate	1.79%	14.79%
Total	<u>100.0%</u>	<u>100.0%</u>
GAAP Weighted-average interest rate at end of period:		
Fixed rate	5.60%	6.20%
Variable rate	6.91%	5.94%
Total	<u>5.62%</u>	<u>6.16%</u>

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The variable rate debt shown above bears interest based on various spreads over the London Interbank Offered Rate or Eurodollar rates. As of September 30, 2007, the weighted-average interest rate on our variable rate debt was LIBOR/Eurodollar plus 1.25% per annum. On September 27, 2007, we entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of \$96.7 million. The swap contract went into effect on October 22, 2007 and expires on October 29, 2008.

### *Unsecured Line of Credit*

On August 3, 2006, we modified our \$605.0 million unsecured revolving credit facility (the "Unsecured Line of Credit") by extending the maturity date from October 30, 2007 to August 3, 2010, with a provision for a one-year extension at our option, subject to certain conditions, and by reducing the per annum variable interest rate on outstanding balances from Eurodollar plus 0.65% to Eurodollar plus 0.55% per annum. Effective March 22, 2007, the per annum variable interest rate was reduced to Eurodollar plus 0.475% and the facility fee, which is payable in equal quarterly installments, was reduced from 15 basis points to 12.5 basis points per annum as a result of an increase in our Operating Partnership's unsecured debt rating. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a reduced Eurodollar rate. The Unsecured Line of Credit will be available to fund working capital and general corporate purposes, including, without limitation, to fund development of properties, land and property acquisitions and to repay or reduce indebtedness. The Unsecured Line of Credit is a recourse obligation of Boston Properties Limited Partnership.

Our ability to borrow under our Unsecured Line of Credit is subject to our compliance with a number of customary financial and other covenants on an ongoing basis, including:

- a leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days;
- a secured debt leverage ratio not to exceed 55%;
- a fixed charge coverage ratio of at least 1.40;
- an unsecured leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days;
- a minimum net worth requirement;
- an unsecured debt interest coverage ratio of at least 1.75; and
- limitations on permitted investments.

We believe we are in compliance with the financial and other covenants listed above.

As of September 30, 2007, we had no amount outstanding under the Unsecured Line of Credit with the ability to borrow \$583.3 million. We currently have no borrowings outstanding under our Unsecured Line of Credit.

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### *Unsecured Senior Notes*

The following summarizes the unsecured senior notes outstanding as of September 30, 2007 (dollars in thousands):

	<u>Coupon/ Stated Rate</u>	<u>Effective Rate(1)</u>	<u>Principal Amount</u>	<u>Maturity Date(2)</u>
10 Year Unsecured Senior Notes	6.250%	6.296%	\$ 750,000	January 15, 2013
10 Year Unsecured Senior Notes	6.250%	6.280%	175,000	January 15, 2013
12 Year Unsecured Senior Notes	5.625%	5.636%	300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.075%	250,000	June 1, 2015
Total principal			1,475,000	
Net discount			(3,199)	
Total			<u>\$1,471,801</u>	

- (1) Yield on issuance date including the effects of discounts on the notes.
- (2) No principal amounts are due prior to maturity.

Our unsecured senior notes are redeemable at our option, in whole or in part, at a redemption price equal to the greater of (i) 100% of their principal amount or (ii) the sum of the present value of the remaining scheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus 35 basis points (the \$250 million 12 Year Unsecured Senior Notes that mature on June 1, 2015 are calculated at the U.S. Treasury yield plus 25 basis points), in each case plus accrued and unpaid interest to the redemption date. The indenture under which our senior unsecured notes were issued contains restrictions on incurring debt and using our assets as security in other financing transactions and other customary financial and other covenants, 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 1.5, and (4) unencumbered asset value to be no less than 150% of our unsecured debt. As of September 30, 2007, we were in compliance with each of these financial restrictions and requirements.

Boston Properties Limited Partnership's investment grade ratings on its unsecured senior notes are as follows:

<u>Rating Organization</u>	<u>Rating</u>
Moody's	Baa2 (stable)
Standard & Poor's	BBB+ (stable)
FitchRatings	BBB (stable)

The security rating is not a recommendation to buy, sell or hold securities, as it may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating. On March 21, 2007, Standard & Poor's raised our senior unsecured credit ratings from BBB to BBB+, the outlook remaining stable.

### *Unsecured exchangeable senior notes*

#### **3.75% Exchangeable Senior Notes due 2036**

On April 6, 2006, our Operating Partnership completed a public offering of \$400 million in aggregate principal amount of its 3.75% exchangeable senior notes due 2036. On May 2, 2006, the Operating Partnership issued an additional \$50 million aggregate principal amount of the notes as a result of the exercise by the underwriter of its over-allotment option. The notes mature on May 15, 2036, unless earlier repurchased, exchanged or redeemed.

Upon the occurrence of specified events, holders of the notes may exchange their notes prior to the close of business on the scheduled trading day immediately preceding May 18, 2013 into cash and, at the Operating

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Partnership's option, shares of our common stock at an exchange rate of 9.3900 shares per \$1,000 principal amount of notes (or an exchange price of approximately \$106.50 per share of common stock). The initial exchange rate of 8.9461 shares per \$1,000 principal amount of notes and the initial exchange price of approximately \$111.78 per share of our common stock were adjusted effective as of December 29, 2006 in connection with the special distribution declared on December 15, 2006. On and after May 18, 2013, the notes will be exchangeable at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date at the option of the holder at the applicable exchange rate. The exchange rate is subject to adjustment in certain circumstances.

Prior to May 18, 2013, the Operating Partnership may not redeem the notes except to preserve our status as a REIT. On or after May 18, 2013, the Operating Partnership may redeem all or a portion of the notes for cash at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. The Operating Partnership must make at least 12 semi-annual interest payments (including interest payments on November 15, 2006 and May 15, 2013) before redeeming any notes at the option of the Operating Partnership. Note holders may require the Operating Partnership to repurchase all or a portion of the notes on May 18, 2013 and May 15 of 2016, 2021, 2026 and 2031 at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the repurchase date. The Operating Partnership will pay cash for all notes so repurchased.

If we undergo a "fundamental change," note holders will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change purchase date. The Operating Partnership will pay cash for all notes so purchased. In addition, if a fundamental change occurs prior to May 18, 2013, the Operating Partnership will increase the exchange rate for a holder who elects to exchange its notes in connection with such a fundamental change under certain circumstances.

### ***2.875% Exchangeable Senior Notes due 2037***

On February 6, 2007, our Operating Partnership completed an offering of \$862.5 million in aggregate principal amount (including \$112.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 2.875% exchangeable senior notes due 2037. The notes were priced at 97.433333% of their face amount, resulting in an effective interest rate of approximately 3.438% per annum and net proceeds to us of approximately \$840.0 million. The notes mature on February 15, 2037, unless earlier repurchased, exchanged or redeemed.

Upon the occurrence of specified events, holders of the notes may exchange their notes prior to the close of business on the scheduled trading day immediately preceding February 20, 2012 into cash and, at the Operating Partnership's option, shares of our common stock at an initial exchange rate of 6.6090 shares per \$1,000 principal amount of notes (or an initial exchange price of approximately \$151.31 per share of our common stock). On and after February 20, 2012, the notes will be exchangeable at any time prior to the close of business on the scheduled trading day immediately preceding the maturity date at the option of the holder at the applicable exchange rate. The initial exchange rate is subject to adjustment in certain circumstances.

Prior to February 20, 2012, the Operating Partnership may not redeem the notes except to preserve our status as a REIT. On or after February 20, 2012, the Operating Partnership may redeem all or a portion of the notes for cash at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. Note holders may require the Operating Partnership to repurchase all or a portion of the notes on February 15 of 2012, 2017, 2022, 2027 and 2032 at a purchase price equal to 100% of the principal amount plus accrued and unpaid interest up to, but excluding, the repurchase date. The Operating Partnership will pay cash for all notes so repurchased.

If we undergo a "fundamental change," note holders will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change purchase date. The Operating Partnership will pay cash for all notes so purchased. In addition, if a fundamental



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change occurs prior to February 20, 2012, the Operating Partnership will increase the exchange rate for a holder who elects to exchange its notes in connection with such a fundamental change under certain circumstances.

The Operating Partnership offered and sold the notes to the initial purchasers in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The initial purchasers then sold the notes to qualified institutional buyers pursuant to the exemption from registration provided by Rule 144A under the Securities Act.

In connection with the closing, we and our Operating Partnership entered into a Registration Rights Agreement with the initial purchasers, under which we and our Operating Partnership agreed, for the benefit of the holders of the notes, to file with the Securities and Exchange Commission and maintain a shelf registration statement providing for the sale by the holders of the notes and our common stock, if any, issuable upon exchange of the notes. The Operating Partnership will be required to pay liquidated damages in the form of specified additional interest to the holders of the notes if we fail to comply with these obligations; provided that we will not be required to pay liquidated damages with respect to any note after it has been exchanged for any of our common stock. On March 13, 2007, we filed with the SEC a registration statement covering the resale of the notes and shares of common stock issuable upon exchange of the notes. The registration statement was declared effective by the SEC on April 20, 2007.

### *Mortgage Notes Payable*

The following represents the outstanding principal balances due under the mortgages notes payable at September 30, 2007:

Properties	GAAP Interest Rate	Principal Amount (in thousands)	Maturity Date
599 Lexington Avenue(1)	5.41%	\$ 750,000	March 1, 2017
Citigroup Center	7.24%	487,413(2)	May 11, 2011
Embarcadero Center One and Two	6.74%	280,419	December 10, 2008
Prudential Center	6.73%	261,158	July 1, 2008
South of Market	6.91%	96,706(3)(5)	November 21, 2009
One Freedom Square	5.34%	76,427(4)	June 30, 2012
New Dominion Tech Park, Bldg. Two	5.58%	63,000(5)	October 1, 2014
202, 206 & 214 Carnegie Center	8.22%	58,434	October 1, 2010
140 Kendrick Street	5.25%	57,409(6)	July 1, 2013
New Dominion Tech. Park, Bldg. One	7.84%	54,042	January 15, 2021
1330 Connecticut Avenue	4.74%	53,349(7)	February 26, 2011
Reservoir Place	5.84%	50,749(8)	July 1, 2009
Kingstowne Two and Retail	5.61%	43,459(9)	January 1, 2016
504, 506 & 508 Carnegie Center	7.39%	41,255(10)	January 1, 2008
10 and 20 Burlington Mall Road	7.31%	35,735(11)	October 1, 2011
Ten Cambridge Center	8.35%	31,637	May 1, 2010
Sumner Square	7.54%	27,102	September 1, 2013
Montvale Center	6.07%	25,000(5)	June 6, 2012
Eight Cambridge Center	7.74%	24,667	July 15, 2010
1301 New York Avenue	7.24%	23,834(12)	August 15, 2009
510 Carnegie Center	7.39%	23,710(10)	January 1, 2008
Reston Corporate Center	6.56%	20,714	May 1, 2008
University Place	6.99%	20,561	August 1, 2021
Kingstowne One	5.68%	20,524(13)	May 5, 2013
Bedford Business Park	8.60%	17,089	December 10, 2008
Total		<u>\$2,644,393</u>	

- (1) On December 19, 2006, we terminated our forward-starting interest rate swap contracts and received approximately \$10.9 million, which amount will reduce our interest expense for this mortgage over the term of

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the financing, resulting in an effective interest rate of 5.38% per annum for the financing. The stated interest rate is 5.57% per annum. The mortgage loan requires interest only payments with a balloon payment due at maturity.

- (2) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon redemption of the outside members' equity interest in the limited liability company that owns the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$485.2 million and the stated interest rate was 7.19%.
- (3) The construction financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum.
- (4) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$71.2 million and the stated interest rate was 7.75% per annum.
- (5) The mortgage loan requires interest only payments with a balloon payment due at maturity.
- (6) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$53.0 million and the stated interest rate was 7.51% per annum.
- (7) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$48.9 million and the stated interest rate was 7.58% per annum.
- (8) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$50.0 million and the stated interest rate was 7.0% per annum.
- (9) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$42.4 million and the stated interest rate was 5.99% per annum.
- (10) On October 1, 2007, we repaid the mortgage loan secured by this property.
- (11) Includes outstanding indebtedness secured by 91 Hartwell Avenue.
- (12) Includes outstanding principal in the amounts of \$18.1 million, \$4.0 million and \$1.7 million which bear interest at fixed rates of 6.70%, 8.54% and 6.75% per annum, respectively.
- (13) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the note. The stated principal balance at September 30, 2007 was \$20.1 million and the stated interest rate was 5.96% per annum.

### Off Balance Sheet Arrangements- Joint Venture Indebtedness

We have investments in eight unconsolidated joint ventures (including our investment in the Value-Added Fund which owns two properties) with our effective ownership interests ranging from 5% to 51%. All of these ventures have mortgage indebtedness. We exercise significant influence over, but do not control, these entities and therefore they are presently accounted for using the equity method of accounting. See also Note 4 to the Consolidated Financial Statements. At September 30, 2007, the aggregate debt incurred by these ventures was approximately \$627.5 million. The table below summarizes the outstanding debt of these joint venture properties at September 30, 2007:

<u>Properties</u>	<u>Venture Ownership %</u>	<u>GAAP Interest Rate</u>	<u>Principal Amount</u> (in thousands)	<u>Maturity Date</u>
Metropolitan Square	51%	8.23%	\$129,220	May 1, 2010
Market Square North	50%	7.74%	88,507	December 19, 2010
505 9th Street	50%	6.19%	79,064(1)	See Note 1
Eighth Avenue and 46th Street	50%	8.34%	23,600(2)	May 8, 2008
Annapolis Junction	50%	7.17%	5,571	September 12, 2010
901 New York Avenue	25%	5.27%	170,000	January 1, 2015
Circle Star	25%	6.57%	42,000(3)	September 1, 2013
300 Billerica Road	25%	5.69%	7,500(3)	January 1, 2016
Wisconsin Place	23.89%	7.12%	46,167(4)	March 11, 2009 (4)
Wisconsin Place	23.89%	4.38%	7,392(5)	January 1, 2008 (5)
Wisconsin Place Retail	5%	5.44%	28,473(6)	March 29, 2010 (6)
Total			<u>\$627,494</u>	

- (1) Amount represents outstanding construction financing under a \$60.0 million loan commitment (of which our share is \$30.0 million) which bears interest at a fixed rate of 5.73% per annum and a \$35.0 million loan

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commitment (of which our share is \$17.5 million) which bears interest at a variable rate of LIBOR plus 1.25% per annum. On October 17, 2007 the construction financing on the property was converted to a ten-year fixed rate loan. The new mortgage financing totaling \$130.0 million bears interest at a fixed interest rate of 5.73% per annum and matures on November 1, 2017. The weighted-average rate as of September 30, 2007 is reflected in the table.

- (2) The financing bears interest at a variable rate equal to LIBOR plus 2.25% per annum.
- (3) This property is owned by the Value-Added Fund.
- (4) Amount represents outstanding construction financing under a \$96.5 million loan commitment (of which our share is \$23.1 million) at a variable rate equal to LIBOR plus 1.50% per annum with a maturity in March 2009. The mortgage debt requires interest only payments with a balloon payment due at maturity. On March 29, 2007, the entity executed an amendment to its construction loan agreement. The outstanding balance on the construction loan was approximately \$53.6 million of the \$96.5 million commitment. The amended agreement provides for a reduction in the loan commitment amount to \$69.1 million. The reduction relates to the repayment of the retail portion of the outstanding balance totaling approximately \$15.9 million and an additional reduction in the borrowing capacity of approximately \$11.5 million with a corresponding release of collateral in conjunction with the retail entity obtaining new construction financing.
- (5) In accordance with EITF 98-1, the principal amount and interest rates shown were adjusted to reflect the fair value of the note using an effective interest rate of 4.38% per annum. This note is non-interest bearing with a stated principal balance of \$7.5 million (of which our share is approximately \$1.8 million) and matures in January 2008. The weighted-average rates exclude the impact of this loan. We have agreed, together with our third-party joint venture partners, to guarantee this seller financing on behalf of the land and infrastructure entity.
- (6) Amount represents outstanding construction financing under a \$66.0 million loan commitment collateralized by the retail entity of Wisconsin Place. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.375% per annum and matures on March 29, 2010 with two one-year extension options.

### *State and Local Tax Matters*

Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but subject to certain state and local taxes. In the normal course of business, certain entities through which we own real estate either have undergone, or are currently undergoing, tax audits or other inquiries. Although we believe that we have substantial arguments in favor of our positions in the ongoing audits, in some instances there is no controlling precedent or interpretive guidance on the specific point at issue. Collectively, tax deficiency notices received to date from the jurisdictions conducting the ongoing audits have not been material. However, there can be no assurance that future audits will not occur with increased frequency or that the ultimate result of such audits will not have a material adverse effect on our results of operations.

### *Insurance*

We carry insurance coverage on our properties of types and in amounts and with deductibles that we believe 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, or TRIA, was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) through December 31, 2004, which date was extended to December 31, 2005 by the United States Department of Treasury on June 18, 2004 and which date was further extended to December 31, 2007 by the Terrorism Risk Insurance Extension Act of 2005 (the "TRIA Extension Act"). TRIA expires on December 31, 2007, and we cannot currently anticipate whether it will be extended. Effective as of March 1, 2007, our property insurance program per occurrence limits were increased from \$800 million to \$900 million, including (i) coverage for "certified" acts of terrorism by TRIA of \$900 million per occurrence and (ii) coverage for "non-certified" acts of terrorism by TRIA of \$500 million per occurrence, and an additional \$400 million of coverage for "non-certified" acts of terrorism by TRIA on a per occurrence and

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annual aggregate basis. We also carry nuclear, biological, chemical and radiological terrorism insurance coverage (“NBCR Coverage”) for “certified” acts of terrorism as defined by TRIA, which is provided by IXP, LLC as a direct insurer. Effective as of March 1, 2007, we extended the NBCR Coverage to March 1, 2008, excluding our Value-Added Fund properties. Effective as of March 1, 2007, the per occurrence limit for NBCR Coverage was increased from \$800 million to \$900 million. Under TRIA, after the payment of the required deductible and coinsurance the NBCR Coverage is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a “program trigger.” Under the TRIA Extension Act (a) the program trigger is \$100 million from January 1, 2007 through December 31, 2007 and (b) the coinsurance is 15% from January 1, 2007 through December 31, 2007. We may elect to terminate the NBCR Coverage if there is a change in our portfolio or for any other reason. In the event TRIA is not extended beyond December 31, 2007 (i) the NBCR coverage provided by IXP will terminate and (ii) we will have some gaps in our coverage for acts of terrorism that would have constituted both “certified” and “non-certified” acts of terrorism had TRIA not expired and we may obtain the right to replace a portion of such coverage. We intend to continue to monitor the scope, nature and cost of available terrorism insurance and maintain insurance in amounts and on terms that are commercially reasonable.

We also currently carry earthquake insurance on our properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that we believe 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, we currently carry earthquake insurance which covers our San Francisco region with a \$120 million per occurrence limit and a \$120 million annual aggregate limit, \$20 million of which is provided by IXP, LLC, as a direct insurer. The amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. We may discontinue earthquake insurance on some or all of our properties in the future if the premiums exceed our estimation of the value of the coverage.

In January 2002, we formed a wholly-owned taxable REIT subsidiary, IXP, Inc., to act as a captive insurance company and be one of the elements of our overall insurance program. On September 27, 2006, IXP, Inc. was merged into IXP, LLC, a wholly owned subsidiary, and all insurance policies issued by IXP, Inc. were cancelled and reissued by IXP, LLC. The term “IXP” refers to IXP, Inc. for the period prior to September 27, 2006 and to IXP, LLC for the period on and subsequent to September 27, 2006. IXP acts as a direct insurer with respect to a portion of our earthquake insurance coverage for our Greater San Francisco properties and our NBCR Coverage for “certified acts of terrorism” under TRIA. Insofar as we own IXP, we are responsible for its liquidity and capital resources, and the accounts of IXP are part of our consolidated financial statements. In particular, if a loss occurs which is covered by our 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. If we experience a loss and IXP is required to pay under our insurance policy, we would ultimately record the loss to the extent of IXP’s required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but we 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 our properties, for which we 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 we experience a loss that is uninsured or that exceeds policy limits, we 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 we could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect our business and financial condition and results of operations.

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### *Funds from Operations*

Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”), we calculate Funds from Operations, or “FFO,” by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items) for gains (or losses) from sales of properties, real estate related depreciation and amortization, and after adjustment for unconsolidated partnerships, joint ventures and preferred distributions. FFO is a non-GAAP financial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company’s real estate between periods or as compared to different companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO, as adjusted, for the three months ended June 30, 2006 which excludes the effects of the losses from early extinguishments of debt associated with the sales of real estate. The adjustment to exclude losses from early extinguishments of debt results when the sale of real estate encumbered by debt requires us to pay the extinguishment costs prior to the debt’s stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, we view the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because we extinguished the debt in connection with the consummation of the sale transactions and we had no intent to extinguish the debt absent such transactions. We believe that this supplemental adjustment more appropriately reflects the results of our operations exclusive of the impact of our sale transactions.

Although our FFO, as adjusted, clearly differs from NAREIT’s definition of FFO, and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance because we believe that, by excluding the effects of the losses from early extinguishments of debt associated with the sales of real estate, adjustments for non-qualifying derivative contracts and early lease surrender payments, management and investors are presented with an indicator of our operating performance that more closely achieves the objectives of the real estate industry in presenting FFO.

Neither FFO nor FFO, as adjusted, should be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. Neither FFO nor FFO, as adjusted, represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO and FFO, as adjusted, should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our Consolidated Financial Statements.

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The following table presents a reconciliation of net income available to common shareholders to FFO for the three months ended September 30, 2007 and 2006:

	Three Months Ended September 30,	
	2007	2006
	(in thousands)	
Net income available to common shareholders	\$242,370	\$107,962
Add:		
Minority Interest in Operating Partnership	14,178	18,404
Less:		
Income from unconsolidated joint ventures	1,390	20,200
Gains on sales of real estate, net of minority interest	168,495	17,889
Income from discontinued operations, net of minority interest	—	3,371
Income before income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	86,663	84,906
Add:		
Real estate depreciation and amortization(1)	73,195	73,408
Income from discontinued operations	—	3,995
Income from unconsolidated joint ventures(2)	1,390	2,283
Less:		
Preferred distributions	1,054	1,912
Funds from Operations	\$160,194	\$162,680
Add:		
Losses from early extinguishment of debt associated with the sales of real estate	2,675	—
Funds from operations after a supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	162,869	162,680
Less:		
Minority interest in the Operating Partnership's share of Funds from Operations after a supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	23,815	25,404
Funds from Operations available to common shareholders after a supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	\$139,054	\$137,276
Our percentage share of Funds from Operations—basic	85.38%	84.38%
Weighted-average shares outstanding—basic	119,010	115,432

- (1) Real estate depreciation and amortization consists of depreciation and amortization from the Consolidated Statements of Operations of \$71,616 and \$70,558 our share of unconsolidated joint venture real estate depreciation and amortization of \$1,989 and \$2,253 and depreciation and amortization from discontinued operations of \$0 and \$990, less corporate related depreciation and amortization of \$410 and \$393 for the three months ended September 30, 2007 and 2006, respectively.
- (2) Excludes approximately \$17.9 million related to our share of the gain on sale and related loss from early extinguishment of debt associated with the sale of 265 Franklin Street for the three months ended September 30, 2006.

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### Reconciliation to Diluted Funds from Operations:

	Three Months Ended September 30, 2007		Three Months Ended September 30, 2006	
	Income (Numerator) (in thousands)	Shares (Denominator)	Income (Numerator) (in thousands)	Shares (Denominator) (in thousands)
Basic FFO	\$ 162,869	139,392	\$ 162,680	136,793
Effect of Dilutive Securities				
Convertible Preferred Units	1,054	1,644	1,912	2,999
Stock Options and Exchangeable Notes	—	1,645	—	2,296
Diluted FFO	\$ 163,923	142,681	\$ 164,592	142,088
Less:				
Minority interest in Operating Partnership's share of diluted FFO	23,416	20,382	24,745	21,361
Company's share of Diluted FFO(1)	<u>\$ 140,507</u>	<u>122,299</u>	<u>\$ 139,847</u>	<u>120,727</u>

(1) Our share of diluted Funds from Operations was 85.72% and 84.97% for the quarter ended September 30, 2007 and 2006, respectively.

### Contractual Obligations

We have various standing or renewable service contracts with vendors related to our property management. In addition, we have certain other utility contracts we enter into in the ordinary course of business which may extend beyond one year, which vary based on usage. These contracts include terms that provide for cancellation with insignificant or no cancellation penalties. Contract terms are generally one year or less.

On February 15, 2007, we sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately \$1.28 billion in cash. In conjunction with the sale, we have agreed to provide to the buyer monthly revenue support from the closing date until December 31, 2008. The aggregate amount of the revenue support payments will be approximately \$1.6 million and has been recorded as a purchase price adjustment and included in Other Liabilities within our Consolidated Balance Sheets. As of September 30, 2007, the remaining revenue support obligation totaled approximately \$0.2 million.

In connection with the sale of 280 Park Avenue, we entered into a master lease agreement with the buyer at closing. Under the master lease agreement, we guaranteed that the buyer will receive at least a minimum amount of base rent from approximately 74,340 square feet of space during the ten-year period following the expiration of the current leases for this space. The current leases for this space are scheduled to expire at various times between June 2006 and October 2007. The aggregate amount of base rent we have guaranteed over the entire period from 2006 to 2017 is approximately \$67.3 million. Our guarantee obligations, which are in the form of base rent payments to the buyer, will be reduced by the amount of base rent payable, whether or not actually paid, under qualifying leases for this space that we obtain from prospective tenants. We will remain responsible for any free rent periods. The buyer will bear all customary leasing costs for this space, including tenant improvements and leasing commissions. During the nine months ended September 30, 2007, we signed a new qualifying lease for approximately 22,000 net rentable square feet of our remaining 47,659 net rentable square foot master lease obligation. Our remaining master lease obligation as of September 30, 2007 is approximately \$26.5 million which is reflected in the Consolidated Balance Sheet as other liabilities.

Under the purchase and sale agreement for 280 Park Avenue, we have also agreed to provide to the buyer fixed monthly revenue support from the closing date until December 31, 2008. The aggregate amount of the revenue support payments will be approximately \$22.5 million and has been recorded as a purchase price adjustment and included in Other Liabilities within our Consolidated Balance Sheets. As of September 30, 2007, the remaining revenue support obligation totaled approximately \$8.4 million.

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### *Newly Issued Accounting Standards*

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109” (“FIN No. 48”). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 was effective for fiscal years beginning after December 15, 2006. FIN No. 48, which we adopted effective January 1, 2007, did not have a material impact on our cash flows, results of operations, financial position or liquidity.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 157 to have a material impact on our cash flows, results of operations, financial position or liquidity.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS No. 159”). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating and assessing the impact of this statement.



**ITEM 3—Quantitative and Qualitative Disclosures about Market Risk**

Approximately \$5.3 billion of our borrowings bear interest at fixed rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. As of September 30, 2007, the weighted-average interest rate on our variable rate debt was LIBOR/Eurodollar plus 1.25% per annum. The following table presents our aggregate fixed rate debt obligations with corresponding weighted-average interest rates sorted by maturity date and our aggregate variable rate debt obligations sorted by maturity date.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012+</u>	<u>Total</u>	<u>Fair Value</u>
<b>Secured debt</b>								
(dollars in thousands)								
Fixed Rate	\$10,291	\$667,494	\$ 95,442	\$132,870	\$545,153	\$1,096,437	\$2,547,687	\$2,569,196
Average Interest Rate	6.69%	6.84%	6.38%	7.86%	7.02%	5.61%	6.38%	
Variable Rate	—	—	96,706	—	—	—	96,706	96,706
<b>Unsecured debt</b>								
Fixed Rate	—	—	—	—	—	\$1,471,801	\$1,471,801	\$1,467,348
Average Interest Rate	—	—	—	—	—	5.95%	5.95%	
Variable Rate	—	—	—	—	—	—	—	—
<b>Unsecured exchangeable debt</b>								
Fixed Rate	—	—	—	—	—	\$1,293,074	\$1,293,074	\$1,320,313
Average Interest Rate	—	—	—	—	—	3.55%	3.55%	
Variable Rate	—	—	—	—	—	—	—	—
<b>Total Debt</b>	<u>\$10,291</u>	<u>\$667,494</u>	<u>\$192,148</u>	<u>\$132,870</u>	<u>\$545,153</u>	<u>\$3,861,312</u>	<u>\$5,409,268</u>	<u>\$5,453,563</u>

In July and August 2007, we entered into nine interest rate contracts, known as “treasury locks,” which fix the 10-year treasury rate at a weighted-average rate of 4.74% per annum on notional amounts of \$325.0 million. The treasury locks fix the 10-year treasury rate for a long-term fixed-rate financing commencing in April 2008 and expiring in April 2018. We expect to settle the interest rate contracts at the time we lock the rate on long-term fixed-rate financing. If the 10-year treasury rate is below the fixed strike rate at the time we settle each contract, we would be required to make a payment to the contract counterparties; if the 10-year treasury rate is above the fixed strike rate at the time we cash settle each contract, we would receive a payment from the contract counterparties. The amount that we either pay or receive will equal the present value of the basis point differential between the applicable fixed strike rate and the 10-year treasury rate at the time we settle each contract. These treasury locks qualify as highly-effective cash flow hedges under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended.

In August and September 2007, we entered into four forward-starting interest rate swap contracts to lock in the 10-year treasury rate and 10-year swap spread. The swaps fixed the 10-year swap rate for a financing in July 2008 at a weighted-average rate of 5.21% per annum on notional amounts aggregating \$125.0 million. The 10-year treasury rate is a component of the 10-year swap rate and the swap contracts effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.53% per annum. The forward-starting swaps fix the 10-year swap rate for a long-term fixed-rate financing commencing in April 2008 and expiring in April 2018. We expect to settle the interest rate contracts in cash at the time we lock the rate on long-term fixed-rate financing. If the 10-year swap rate is below the fixed strike rate at the time we settle each contract, we would be required to make a payment to the contract counterparties; if the 10-year swap rate is above the fixed strike rate at the time we cash settle each contract, we would receive a payment from the contract counterparties. The amount that we either pay or receive will equal the present value of the basis point differential between the applicable fixed strike rate and the 10-year swap rate at the time we settle each contract. We believe that these swaps qualify as highly-effective cash flow hedges under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended.

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On September 27, 2007, we entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of \$96.7 million. The swap contract goes into effect on October 22, 2007 and expires on October 29, 2008.

On November 2, 2007, we entered into a forward-starting interest rate swap contract to lock the 10-year LIBOR swap rate on a notional amount of \$25.0 million at a forward-starting 10-year swap rate of 5.05% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the referenced contract effectively fixed the 10-year treasury rate at 4.38%. The swap contract goes into effect on July 31, 2008 and expires on July 31, 2018. On November 9, 2007, we entered into a treasury lock that fixed the 10-year treasury rate at 4.33% per annum on a notional amount of \$25.0 million. The treasury lock matures on July 31, 2008. We have effectively fixed the 10-year treasury rate at a weighted average interest rate of 4.65% per annum on notional amounts aggregating \$500.0 million with its interest rate hedging program.

We have recorded the changes in fair value of the treasury lock and swap contracts related to the effective portion of the interest rate contracts totaling approximately \$2.9 million in Accumulated Other Comprehensive Income within our Consolidated Balance Sheets. We expect that within the next twelve months we will reclassify into earnings approximately \$0.2 million of the amounts recorded within Accumulated Other Comprehensive Income relating to the treasury lock contracts and forward-starting interest rate swap contracts.

During 2005, we entered into twelve forward-starting interest rate swap contracts to lock in the 10-year treasury rate and 10-year swap spreads. On December 19, 2006, we entered into an interest rate lock agreement with a lender for a fixed interest rate of 5.57% per annum on a ten-year mortgage financing totaling \$750.0 million to be collateralized by our 599 Lexington Avenue property in New York City. We closed on the mortgage financing on February 12, 2007. In conjunction with the interest rate lock agreement, we terminated the forward-starting interest rate swap contracts and received approximately \$10.9 million, which amount will reduce our interest expense over the ten-year term of the financing, resulting in an effective interest rate of 5.38% per annum. Over the next twelve months we will reclassify into earnings approximately \$1.0 million of the amounts recorded within Accumulated Other Comprehensive Loss relating to the forward-starting interest rate swap contracts.

We intend to consider entering into additional hedging arrangements to minimize our interest rate risk.

At September 30, 2007, our outstanding variable rate debt based off LIBOR totaled approximately \$96.7 million. At September 30, 2007, the average interest rate on variable rate debt was approximately 6.68%. If market interest rates on our variable rate debt had been 100 basis points greater, total interest expense would have increased approximately \$0.2 million for the three months ended September 30, 2007.

At September 30, 2006, our outstanding variable rate debt based off LIBOR totaled approximately \$700 million. At September 30, 2006, the average interest rate on variable rate debt was approximately 5.77%. If market interest rates on our variable rate debt had been 100 basis points greater, total interest expense would have increased approximately \$1.8 million for the three months ended September 30, 2006.

These amounts were determined solely by considering the impact of hypothetical interest rates on our financial instruments. Due to the uncertainty of specific actions we may undertake to minimize possible effects of market interest rate increases, this analysis assumes no changes in our financial structure.

### **ITEM 4—Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Changes in Internal Control Over Financial Reporting. No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the second quarter of our fiscal year ending December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1—Legal Proceedings.

We are subject to legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on our financial position, results of operations or liquidity.

### ITEM 1A—Risk Factors.

There were no material changes to the risk factors disclosed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2006, except to the extent previously updated or to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, “Item 2-Management’s Discussion and Analysis of Financial Condition and Results of Operations—Update on Recent Regulatory Initiatives.”) In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on the Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### ITEM 2—Unregistered Sales of Equity Securities and Use of Proceeds.

(a) During the three months ended September 30, 2007, the Company issued 215,022 shares of common stock in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The shares of common stock were issued in exchange for 215,022 common units of limited partnership tendered for redemption by a certain limited partner of Boston Properties Limited Partnership. The common units had been issued by Boston Properties Limited Partnership upon conversion of 163,847 Series Two Preferred Units. The Company relied on the exemption based upon factual representations received from the limited partner who received these shares.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities.

None.

### ITEM 3—Defaults Upon Senior Securities.

None.

### ITEM 4—Submission of Matters to a Vote of Security Holders.

None.

### ITEM 5—Other Information.

(a) None.

(b) None.

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### **ITEM 6—Exhibits**

#### (a) Exhibits

- 3.1 - Amendment No. 3 to Amended and Restated By-Laws of Boston Properties, Inc. (Incorporated by reference to Exhibit 3.1 to Boston Properties, Inc.'s Form 8-K filed on October 19, 2007.)
- 10.1 - First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Mortimer B. Zuckerman.
- 10.2 - First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Edward H. Linde.
- 10.3 - First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Douglas T. Linde.
- 10.4 - First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Raymond A. Ritchey.
- 10.5 - First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and E. Mitchell Norville.
- 10.6 - First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Peter D. Johnston.
- 10.7 - First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Bryan J. Koop.
- 10.8 - First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Robert E. Selsam.
- 10.9 - First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Robert E. Pester.
- 10.10 - First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Mitchell S. Landis.
- 10.11 - First Amendment to the Senior Executive Severance Agreement, dated as of November 1, 2007, by and among Boston Properties, Inc., Boston Properties Limited Partnership and Mortimer B. Zuckerman.
- 10.12 - First Amendment to the Senior Executive Severance Agreement, dated as of November 1, 2007, by and among Boston Properties, Inc., Boston Properties Limited Partnership and Edward H. Linde.
- 10.13 - First Amendment to the Boston Properties, Inc. Senior Executive Severance Plan, dated as of October 18, 2007.
- 10.14 - First Amendment to the Boston Properties, Inc. Executive Severance Plan, dated as of October 18, 2007.
- 10.15 - Boston Properties, Inc. Officer Severance Plan, dated as of July 30, 1998.
- 10.16 - First Amendment to the Boston Properties, Inc. Officer Severance Plan, dated as of October 18, 2007.
- 12.1 - Calculation of Ratios of Earnings to Fixed Charges and Calculation of Ratios of Earnings to Combined Fixed Charges and Preferred Distributions.
- 31.1 - Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 - Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2 - Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BOSTON PROPERTIES, INC,

November 9, 2007

/s/ DOUGLAS T. LINDE

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**Douglas T. Linde**  
**President & Chief Financial Officer**  
**(duly authorized officer and**  
**principal financial officer)**

**FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Employment Agreement (“Employment Agreement”) dated as of January 17, 2003, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), and Mortimer B. Zuckerman (“Employee”).

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Mortimer B. Zuckerman  
MORTIMER B. ZUCKERMAN

**FIRST AMENDMENT  
TO  
AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Amended and Restated Employment Agreement (“Employment Agreement”) dated as of November 29, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), and Edward H. Linde (“Employee”).

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:



“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ E. Mitchell Norville

Name: E. Mitchell Norville

Title: Executive Vice President,  
Chief Operating Officer

/s/ Edward H. Linde

EDWARD H. LINDE

**FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

First Amendment ("Amendment") made as of the 1<sup>st</sup> day of November, 2007 to the Employment Agreement ("Employment Agreement") dated as of November 29, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the "Company"), and Douglas T. Linde ("Employee").

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ E. Mitchell Norville

Name: E. Mitchell Norville

Title: Executive Vice President,  
Chief Operating Officer

/s/ Douglas T. Linde

DOUGLAS T. LINDE

**FIRST AMENDMENT  
TO  
AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

First Amendment ("Amendment") made as of the 1<sup>st</sup> day of November, 2007 to the Amended and Restated Employment Agreement ("Employment Agreement") dated as of November 29, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the "Company"), and Raymond A. Ritchey ("Employee").

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

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5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Raymond A. Ritchey  
RAYMOND A. RITCHEY

**FIRST AMENDMENT  
TO  
AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Amended and Restated Employment Agreement (“Employment Agreement”) dated as of August 25, 2005, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), and E. Mitchell Norville (“Employee”).

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ E. Mitchell Norville  
E. MITCHELL NORVILLE

**FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Employment Agreement (“Employment Agreement”) dated as of August 25, 2005, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), and Peter D. Johnston (“Employee”).

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:



“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Peter D. Johnston  
PETER D. JOHNSTON

**FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

First Amendment ("Amendment") made as of the 1<sup>st</sup> day of November, 2007 to the Employment Agreement ("Employment Agreement") dated as of November 29, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the "Company"), and Bryan J. Koop ("Employee").

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Bryan J. Koop  
BRYAN J. KOOP

**FIRST AMENDMENT  
TO  
AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

First Amendment ("Amendment") made as of the 1<sup>st</sup> day of November, 2007 to the Amended and Restated Employment Agreement ("Employment Agreement") dated as of November 29, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the "Company"), and Robert E. Selsam ("Employee").

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Robert E. Selsam  
ROBERT E. SELSAM

**FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Employment Agreement (“Employment Agreement”) dated as of December 16, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), and Robert E. Pester (“Employee”).

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:

“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Robert E. Pester  
ROBERT E. PESTER

**FIRST AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

First Amendment ("Amendment") made as of the 1<sup>st</sup> day of November, 2007 to the Employment Agreement ("Employment Agreement") dated as of November 26, 2002, by and between Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the "Company"), and Mitchell S. Landis ("Employee").

WHEREAS, the parties hereto desire to amend the Employment Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Company and Employee agree as follows:

1. Subparagraph 8(e) of the Employment Agreement is hereby amended by deleting subparagraph (ii) thereof in its entirety and substituting therefor the following:

“(ii) Employee may terminate his employment hereunder for Good Reason. “Good Reason” shall mean: (A) a substantial adverse change, not consented to by Employee, in the nature or scope of Employee’s responsibilities, authorities, powers, functions, or duties under this Agreement; (B) a breach by the Company of any of its material obligations hereunder; or (C) a material change in the geographic location at which Employee must perform his services. To constitute Good Reason termination, Employee must (1) provide written notice to the Company within ninety (90) days of the initial existence of the event constituting Good Reason, (2) may not terminate his employment pursuant to this subparagraph unless the Company fails to remedy the event constituting Good Reason within thirty (30) days after such notice has been deemed given pursuant to this Agreement, and (3) Employee must terminate employment with the Company no later than thirty (30) days after the end of the thirty-day period in which the Company fails to remedy the event constituting Good Reason.”

2. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the clause “(the “Release”) no later than twenty-one (21) days after the Date of Termination,” after the word “Company” in the second sentence thereof.

3. Subparagraph 8(e)(iii) of the Employment Agreement is further amended by deleting the last sentence of clause (A) thereof and substituting therefor the following:



“The Severance Amount shall be paid in equal installments in accordance with the Company’s then payroll practice over a twelve (12) month period beginning with the first payroll date after the execution of the Release and the lapse of the seven-day revocation period provided in the Release. Solely for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), each installment payment is considered a separate payment;”

4. Subparagraph 8(e)(iii) of the Employment Agreement is hereby amended by adding the following clause (E) at the end of clause (D):

“(E) Anything in this Agreement to the contrary notwithstanding, if at the time of Employee’s separation from service, Employee is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earlier of (1) six months and one day after Employee’s separation from service, or (2) Employee’s death, and the initial payment shall include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision.”

5. All other provisions of the Employment Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Employment Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company and by Employee as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde

Name: Douglas T. Linde

Title: President

/s/ Mitchell S. Landis

MITCHELL S. LANDIS

**FIRST AMENDMENT  
TO  
SENIOR EXECUTIVE SEVERANCE AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Senior Executive Severance Agreement (“Severance Agreement”) dated as of July 30, 1998, by and among Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), Boston Properties Limited Partnership, a Delaware limited partnership with its principal place of business in Boston, Massachusetts (“BPLP”) (the Company and BPLP shall be hereinafter collectively referred to as the “Employers”), and Mortimer B. Zuckerman of New York, New York (the “Executive”).

WHEREAS, the parties hereto desire to amend the Severance Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Severance Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Employers and the Executive agree as follows:

1. Section 5(b) of the Severance Agreement is hereby amended by deleting the third sentence thereof and substituting therefor the following:

“The initial Gross-Up Payment, if any, as determined pursuant to this Section 5(b), shall be paid as withholding taxes to the taxing authorities on behalf of the Executive at such time or times when the Excise Tax is due.”

2. The Severance Agreement is hereby amended by adding the following Section 17 at the end thereof:

“17. Section 409A. Notwithstanding anything to the contrary in the foregoing, if at the time of the Executive’s separation from service within the meaning of Section 409A of the Code, the Executive is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment or benefit that the Executive becomes entitled to under this Agreement would be considered deferred compensation subject to interest, penalties and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment or benefit shall be payable or provided prior to the date that is the earlier of (i) six months and one day after the Executive’s separation from service, or (ii) the Executive’s death. Any such deferred payment shall earn simple interest calculated at the short-term applicable federal rate in effect on the Date of Termination.

On or before the Executive's Date of Termination, the Employers shall make an irrevocable contribution to a rabbi trust with an independent bank trustee in an amount equal to the amount of such deferred payment plus interest."

3. All other provisions of the Severance Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Severance Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Employers and by Executive as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

BOSTON PROPERTIES LIMITED PARTNERSHIP

By: Boston Properties, Inc.  
Its: General Partner

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

/s/ Mortimer B. Zuckerman  
MORTIMER B. ZUCKERMAN

**FIRST AMENDMENT  
TO  
SENIOR EXECUTIVE SEVERANCE AGREEMENT**

First Amendment (“Amendment”) made as of the 1<sup>st</sup> day of November, 2007 to the Senior Executive Severance Agreement (“Severance Agreement”) dated as of July 30, 1998, by and among Boston Properties, Inc., a Delaware corporation with its principal executive office in Boston, Massachusetts (the “Company”), Boston Properties Limited Partnership, a Delaware limited partnership with its principal place of business in Boston, Massachusetts (“BPLP”) (the Company and BPLP shall be hereinafter collectively referred to as the “Employers”), and Edward H. Linde of Weston, Massachusetts (the “Executive”).

WHEREAS, the parties hereto desire to amend the Severance Agreement to comply with the requirement of Section 409A of the Internal Revenue Code of 1986, as amended; and

WHEREAS, the parties hereto desire that this Amendment be deemed a modification and an amendment to the Severance Agreement.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the Employers and the Executive agree as follows:

1. Section 5(b) of the Severance Agreement is hereby amended by deleting the third sentence thereof and substituting therefor the following:

“The initial Gross-Up Payment, if any, as determined pursuant to this Section 5(b), shall be paid as withholding taxes to the taxing authorities on behalf of the Executive at such time or times when the Excise Tax is due.”

2. The Severance Agreement is hereby amended by adding the following Section 17 at the end thereof:

“17. Section 409A. Notwithstanding anything to the contrary in the foregoing, if at the time of the Executive’s separation from service within the meaning of Section 409A of the Code, the Executive is considered a ‘specified employee’ within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment or benefit that the Executive becomes entitled to under this Agreement would be considered deferred compensation subject to interest, penalties and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment or benefit shall be payable or provided prior to the date that is the earlier of (i) six months and one day after the Executive’s separation from service, or (ii) the Executive’s death. Any such deferred payment shall earn simple interest calculated at the short-term applicable federal rate in effect on the Date of Termination.

On or before the Executive's Date of Termination, the Employers shall make an irrevocable contribution to a rabbi trust with an independent bank trustee in an amount equal to the amount of such deferred payment plus interest."

3. All other provisions of the Severance Agreement shall remain in full force and effect according to their respective terms, and nothing contained herein shall be deemed a waiver of any right or abrogation of any obligation otherwise existing under the Severance Agreement except to the extent specifically provided for herein.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Employers and by Executive as of the date first above written.

BOSTON PROPERTIES, INC.

By: /s/ E. Mitchell Norville  
Name: E. Mitchell Norville  
Title: Executive Vice President,  
Chief Operating Officer

BOSTON PROPERTIES LIMITED PARTNERSHIP

By: Boston Properties, Inc.  
Its: General Partner

By: /s/ E. Mitchell Norville  
Name: E. Mitchell Norville  
Title: Executive Vice President,  
Chief Operating Officer

/s/ Edward H. Linde  
EDWARD H. LINDE

**FIRST AMENDMENT  
TO  
BOSTON PROPERTIES, INC.  
SENIOR EXECUTIVE SEVERANCE PLAN**

A. The Boston Properties, Inc. Senior Executive Severance Plan, as adopted as of July 30, 1998 (the "Plan"), is hereby amended as follows:

1. Section 1 of the Plan is hereby amended by adding the term "the President," before the reference to "the Executive Vice-Presidents" in the third sentence thereof.

2. Section 5(b) of the Plan is hereby amended by deleting the third sentence thereof and substituting therefor the following:

"The initial Gross-Up Payment, if any, as determined pursuant to this Section 5(b), shall be paid as withholding taxes to the taxing authorities on behalf of the Covered Employee at such time or times when the Excise Tax is due."

3. The Plan is hereby further amended by adding the following Section 16 at the end thereof:

"16. Section 409A. Notwithstanding anything to the contrary in the foregoing, if at the time of Covered Employee's separation from service within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the 'Code'), the Covered Employee is considered a 'specified employee' within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment or benefit that the Covered Employee becomes entitled to under this Plan would be considered deferred compensation subject to interest, penalties and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment or benefit shall be payable or provided prior to the date that is the earlier of (i) six months and one day after the Covered Employee's separation from service, or (ii) the Covered Employee's death. Any such deferred payment shall earn simple interest calculated at the short-term applicable federal rate in effect on the Date of Termination. On or before the Covered Employee's Date of Termination, the Company shall make an irrevocable contribution to a rabbi trust with an independent bank trustee in an amount equal to the amount of such deferred payment plus interest."

B. Except as amended hereby, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this First Amendment has been executed on behalf of the Company by its duly authorized officer this 18<sup>th</sup> day of October, 2007.

BOSTON PROPERTIES, INC.

By: /s/ E. Mitchell Norville  
Name: E. Mitchell Norville  
Title: Executive Vice President,  
Chief Operating Officer

**FIRST AMENDMENT  
TO  
BOSTON PROPERTIES, INC.  
EXECUTIVE SEVERANCE PLAN**

A. The Boston Properties, Inc. Executive Severance Plan, as adopted as of July 30, 1998 (the "Plan"), is hereby amended as follows:

1. Section 5(b) of the Plan is hereby amended by deleting the third sentence thereof and substituting therefor the following:

"The initial Gross-Up Payment, if any, as determined pursuant to this Section 5(b), shall be paid as withholding taxes to the taxing authorities on behalf of the Covered Employee at such time or times when the Excise Tax is due."

2. The Plan is further amended by adding the following Section 16 at the end thereof:

"16. Section 409A. Notwithstanding anything to the contrary in the foregoing, if at the time of Covered Employee's separation from service within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the 'Code'), the Covered Employee is considered a 'specified employee' within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment or benefit that the Covered Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest, penalties and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment or benefit shall be payable or provided prior to the date that is the earlier of (i) six months and one day after the Covered Employee's separation from service, or (ii) the Covered Employee's death. Any such deferred payment shall earn simple interest calculated at the short-term applicable federal rate in effect on the Date of Termination. On or before the Covered Employee's Date of Termination, the Company shall make an irrevocable contribution to a rabbi trust with an independent bank trustee in an amount equal to the amount of such deferred payment plus interest."

B. Except as amended hereby, the Plan shall remain in full force and effect.



IN WITNESS WHEREOF, this First Amendment has been executed on behalf of the Company by its duly authorized officer this 18<sup>th</sup> day of October, 2007.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

## BOSTON PROPERTIES, INC.

**Officer Severance Plan**

1. **Purpose.** Boston Properties, Inc. (the “Company”) considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. The Board of Directors of the Company (the “Board”) recognizes, however, that, as is the case with many publicly held corporations, the possibility of a Change in Control (as defined in Section 2 hereof) exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Therefore, the Board has determined that the Boston Properties, Inc. Officer Severance Plan (the “Plan”) should be adopted to reinforce and encourage the continued attention and dedication of the Vice Presidents with less than ten (10) years of service with the Company (each, a “Covered Employee”; collectively, the “Covered Employees”), to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control. Nothing in this Plan shall be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Covered Employee and the Company or any of its subsidiaries or affiliates (together with the Company, the “Employers”), the Covered Employee shall not have any right to be retained in the employ of the Employers.

2. **Change in Control.** For purposes of this Plan, a “Change in Control” shall mean the occurrence of any one of the following events:

(a) any “person,” as such term is used in Sections 13(d) and 14(d) of the Act (other than any of the Employers, Mortimer B. Zuckerman, Edward H. Linde, any “affiliate” or “associate” (as such terms are defined in Rule 12b-2 under the Act) of Mortimer B. Zuckerman or Edward H. Linde, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of any of the Employers), together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 25 percent or more of the combined voting power of the Company’s then outstanding securities having the right to vote in an election of the Company’s Board of Directors (“Voting Securities”) (other than as a result of an acquisition of securities directly from the Company); provided that for purposes of determining the “beneficial ownership” (as such term is defined in Rule 13d-3 under the Act) of any “group” of which Mortimer B. Zuckerman, Edward H. Linde or any of their affiliates or associates is a member (each such entity or individual, a “Related Party”), there shall not be attributed to the “beneficial ownership” (as such term is defined in Rule 13d-3 under the Act) of such group any shares beneficially owned by any Related Party; or

(b) persons who, as of the effective date of the Company’s initial public offering of Stock, constitute the Company’s Board of Directors (the “Incumbent

Directors”) cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to such date shall be considered an Incumbent Director if such person’s election was approved by or such person was nominated for election by either (A) a vote of at least two-thirds of the Incumbent Directors or (B) a vote of at least a majority of the Incumbent Directors who are members of a nominating committee comprised, in the majority, of Incumbent Directors; or

(c) the stockholders of the Company shall approve (A) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, “*beneficially own*” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate 60 percent or more of the voting shares of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer to an unrelated party (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a “Change of Control” shall not be deemed to have occurred for purposes of the foregoing clause (a) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of shares of Voting Securities beneficially owned by any person (as defined in the foregoing clause (a)) to 25 percent or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if such person shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company), then a “*Change of Control*” shall be deemed to have occurred for purposes of the foregoing clause (a).

3. Terminating Event. A “Terminating Event” shall mean the termination of employment of a Covered Employee in connection with any of the events provided in this Section 3 occurring within twelve (12) months following a Change in Control:

(a) termination by the Employers of the employment of the Covered Employee with the Employers for any reason other than for Cause or the death or disability (as determined under the Employers’ then existing long-term disability coverage) of such Covered Employee. “Cause” shall mean, and shall be limited to, the occurrence of any one or more of the following events:

- (i) a willful act of dishonesty by the Covered Employee with respect to any matter involving any of the Employers; or
- (ii) conviction of the Covered Employee of a crime involving moral turpitude; or

(iii) the deliberate or willful failure by the Covered Employee (other than by reason of the Covered Employee's physical or mental illness, incapacity or disability) to substantially perform the Covered Employee's duties with the Employers and the continuation of such failure for a period of 30 days after delivery by the Employers to the Covered Employee of written notice specifying the scope and nature of such failure and their intention to terminate the Covered Employee for Cause.

A Terminating Event shall not be deemed to have occurred pursuant to this Section 3(a) solely as a result of the Covered Employee being an employee of any direct or indirect successor to the business or assets of either of the Employers, rather than continuing as an employee of the Employers following a Change in Control. For purposes of clauses (i) and (iii) of this Section 3(a), no act, or failure to act, on the Covered Employee's part shall be deemed "willful" unless done, or omitted to be done, by the Covered Employee without reasonable belief that the Covered Employee's act, or failure to act, was in the best interest of the Employers; or

(b) termination by the Covered Employee of the Covered Employee's employment with the Employers for Good Reason. "Good Reason" shall mean the occurrence of any of the following events:

(i) a substantial adverse change in the nature or scope of the Covered Employee's responsibilities, authorities, title, powers, functions, or duties from the responsibilities, authorities, powers, functions, or duties exercised by the Covered Employee immediately prior to the Change in Control; or

(ii) a reduction in the Covered Employee's annual base salary as in effect on the date hereof or as the same may be increased from time to time except for across-the-board salary reductions similarly affecting all or substantially all management employees; or

(iii) the relocation of the Employers' offices at which the Covered Employee is principally employed immediately prior to the date of a Change in Control to a location more than thirty (30) miles from such offices, or the requirement by the Employers for the Covered Employee to be based anywhere other than the Employers' offices at such location, except for required travel on the Employers' business to an extent substantially consistent with the Covered Employee's business travel obligations immediately prior to the Change in Control; or

(iv) the failure by the Employers to pay to the Covered Employee any portion of his compensation or to pay to the Covered Employee any portion of an installment of deferred compensation under any deferred compensation program of the Employers within fifteen (15) days of the date such compensation is due without prior written consent of the Covered Employee; or

(v) the failure by the Employers to obtain an effective agreement from any successor to assume and agree to perform this Agreement.

4. Special Termination Benefits. In the event a Terminating Event occurs within twelve (12) months after a Change in Control with respect to a Covered Employee,

(a) the Employers shall pay to the Covered Employee an amount equal to the sum of the following:

(i) one (1) times the amount of the current annual base salary of the Covered Employee, determined prior to any reductions for pre-tax contributions to a cash or deferred arrangement or a cafeteria plan; and

(ii) one (1) times the amount of the average annual bonus earned by the Covered Employee with respect to the three (3) calendar years immediately prior to the Change in Control.

Said amount shall be paid in one lump sum payment no later than thirty-one (31) days following the Date of Termination (as such term is defined in Section 7(b)); and

(b) the Employers shall continue to provide health, dental and life insurance to the Covered Employee, on the same terms and conditions as though the Covered Employee had remained an active employee, for twelve (12) months after the Terminating Event; and

(c) the Employers shall provide COBRA benefits to the Covered Employee following the end of the period referred to in Section 4(b) above, such benefits to be determined as though the Covered Employee's employment had terminated at the end of such period; and

(d) the Employers shall pay to the Covered Employee all reasonable legal and mediation fees and expenses incurred by the Covered Employee in obtaining or enforcing any right or benefit provided by this Plan, except in cases involving frivolous or bad faith litigation initiated by the Covered Employee; and

(e) the Employers shall provide to the Covered Employee financial counseling, tax preparation assistance and outplacement counseling for twelve (12) months after the Terminating Event.

Notwithstanding the foregoing, the special termination benefits required by Section 4(a) shall be offset by any amount paid or payable to the Covered Employee by the Employers under the terms of any employment agreement or other plan.

5. Additional Limitation.

(a) Anything in this Plan to the contrary notwithstanding, in the event that any compensation, payment or distribution by the Employers to or for the benefit of the Covered Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise, (the "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the following provisions shall apply:

(i) If the Severance Payments, reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes payable by the Covered Employee on the amount of the Severance Payments which are in excess of the Threshold Amount, are greater than or equal to the Threshold Amount, the Covered Employee shall be entitled to the full benefits payable under this Plan.

(ii) If the Threshold Amount is less than (x) the Severance Payments, but greater than (y) the Severance Payments reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes on the amount of the Severance Payments which are in excess of the Threshold Amount, then the benefits payable under this Plan shall be reduced (but not below zero) to the extent necessary so that the maximum Severance Payments shall not exceed the Threshold Amount. To the extent that there is more than one method of reducing the payments to bring them within the Threshold Amount, the Covered Employee shall determine which method shall be followed; provided that if the Covered Employee fails to make such determination within 45 days after the Employers have sent the Covered Employee written notice of the need for such reduction, the Employers may determine the amount of such reduction in its sole discretion.

For the purposes of this Section 5, "Threshold Amount" shall mean three times the Covered Employee's "base amount" within the meaning of Section 280G(b)(3) of the Code and the regulations promulgated thereunder less one dollar (\$1.00); and "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, or any interest or penalties incurred by the Covered Employee with respect to such excise tax.

(b) The determination as to which of the alternative provisions of Section 5(a) shall apply to the Covered Employee shall be made by Coopers & Lybrand, L.L.P. or any other nationally recognized accounting firm selected by the Employers (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Employers and the Covered Employee within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Employers or the Covered Employee. For purposes of determining which of the alternative provisions of Section 5(a) shall apply, the Covered Employee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes

at the highest marginal rates of individual taxation in the state and locality of the Covered Employee's residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. Any determination by the Accounting Firm shall be binding upon the Employers and the Covered Employee.

6. Withholding. All payments made by the Employers under this Plan shall be net of any tax or other amounts required to be withheld by the Employers under applicable law.

7. Notice and Date of Termination; Disputes; Etc.

(a) Notice of Termination. Within twelve (12) months after a Change in Control, any purported termination of a Covered Employee's employment (other than by reason of death) shall be communicated by written Notice of Termination from the Employers to the Covered Employee or vice versa in accordance with this Section 7. For purposes of this Plan, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Plan relied upon and the Date of Termination. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than two-thirds (2/3) of the entire membership of the Board at a meeting of the Board (after reasonable notice to the Covered Employee and an opportunity for the Covered Employee, accompanied by the Covered Employee's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the termination met the criteria for Cause set forth in Section 3(a) hereof.

(b) Date of Termination. "Date of Termination," with respect to any purported termination of a Covered Employee's employment within twelve (12) months after a Change in Control, shall mean the date specified in the Notice of Termination. In the case of a termination by the Employers other than a termination for Cause (which may be effective immediately), the Date of Termination shall not be less than 30 days after the Notice of Termination is given. In the case of a termination by a Covered Employee, the Date of Termination shall not be less than 15 days from the date such Notice of Termination is given. Notwithstanding Section 3(a) of this Plan, in the event that a Covered Employee gives a Notice of Termination to the Employers, the Employers may unilaterally accelerate the Date of Termination and such acceleration shall not result in a second Terminating Event for purposes of Section 3(a) of this Plan.

(c) No Mitigation. The Covered Employee is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Covered Employee by the Employers under this Plan. Further, the amount of any payment provided for in this Plan shall not be reduced by any compensation earned by the Covered Employee as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Covered Employee to the Employers, or otherwise.

(d) Mediation of Disputes. The parties shall endeavor in good faith to settle within 90 days any controversy or claim arising out of or relating to this Plan or the breach thereof through mediation with JAMS, Endispute or similar organizations. If the controversy or claim is not resolved within 90 days, the parties shall be free to pursue other legal remedies in law or equity.

8. Benefits and Burdens. This Plan shall inure to the benefit of and be binding upon the Employers and the Covered Employees, their respective successors, executors, administrators, heirs and permitted assigns. In the event of a Covered Employee's death after a Terminating Event but prior to the completion by the Employers of all payments due him under this Plan, the Employers shall continue such payments to the Covered Employee's beneficiary designated in writing to the Employers prior to his death (or to his estate, if the Covered Employee fails to make such designation).

9. Enforceability. If any portion or provision of this Plan shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Plan, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Plan shall be valid and enforceable to the fullest extent permitted by law.

10. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Plan, or the waiver by any party of any breach of this Plan, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

11. Notices. Any notices, requests, demands, and other communications provided for by this Plan shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid, to a Covered Employee at the last address the Covered Employee has filed in writing with the Employers, or to the Employers at their main office, attention of the Board of Directors.

12. Effect on Other Plans. Nothing in this Plan shall be construed to limit the rights of the Covered Employees under the Employers' benefit plans, programs or policies.

13. Amendment or Termination of Plan. The Company may amend or terminate this Plan at any time or from time to time; provided, however, that no such amendment shall, without the consent of the Covered Employees, in any material adverse way affect the rights of the Covered Employees, and no termination shall be made without the written consent of the Covered Employees.

14. Governing Law. This Plan shall be construed under and be governed in all respects by the laws of the Commonwealth of Massachusetts.



15. Obligations of Successors. In addition to any obligations imposed by law upon any successor to the Employers, the Employers will use their best efforts to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Employers to expressly assume and agree to perform this Plan in the same manner and to the same extent that the Employers would be required to perform if no such succession had taken place.

Adopted: As of July 30, 1998

**FIRST AMENDMENT  
TO  
BOSTON PROPERTIES, INC.  
OFFICER SEVERANCE PLAN**

A. The Boston Properties, Inc. Officer Severance Plan, as adopted as of July 30, 1998 (the "Plan"), is hereby amended by adding the following Section 16 at the end thereof:

"16. Section 409A. Notwithstanding anything to the contrary in the foregoing, if at the time of Covered Employee's separation from service within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the 'Code'), the Covered Employee is considered a 'specified employee' within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment or benefit that the Covered Employee becomes entitled to under this Agreement would be considered deferred compensation subject to interest, penalties and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment or benefit shall be payable or provided prior to the date that is the earlier of (i) six months and one day after the Covered Employee's separation from service, or (ii) the Covered Employee's death. Any such deferred payment shall earn simple interest calculated at the short-term applicable federal rate in effect on the Date of Termination. On or before the Covered Employee's Date of Termination, the Company shall make an irrevocable contribution to a rabbi trust with an independent bank trustee in an amount equal to the amount of such deferred payment plus interest."

B. Except as amended hereby, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this First Amendment has been executed on behalf of the Company by its duly authorized officer this 18<sup>th</sup> day of October, 2007.

BOSTON PROPERTIES, INC.

By: /s/ Douglas T. Linde  
Name: Douglas T. Linde  
Title: President

## BOSTON PROPERTIES, INC.

## CALCULATION OF RATIOS OF EARNINGS TO FIXED CHARGES

## CALCULATION OF RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DISTRIBUTIONS

Boston Properties, Inc.'s ratios of earnings to fixed charges and ratios of earnings to combined fixed charges and preferred distributions for the nine months ended September 30, 2007 and the five years ended December 31, 2006 were as follows:

	Nine Months Ended September 30, 2007	Year Ended December 31,				
		2006	2005	2004	2003	2002
(dollars in thousands)						
<b>Earnings:</b>						
Add:						
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and other assets, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	\$ 259,267	\$ 300,764	\$294,238	\$295,643	\$280,891	\$252,880
Gains on sales of real estate and other assets	929,785	719,826	182,542	9,822	70,244	232,304
Amortization of interest capitalized	1,846	3,387	3,298	2,845	2,640	2,526
Distributions from unconsolidated joint ventures	6,162	8,206	7,179	6,663	8,412	8,692
Combined fixed charges and preferred distributions (see below)	238,871	326,995	340,589	334,082	342,244	316,835
Subtract:						
Interest capitalized	(20,627)	(5,921)	(5,718)	(10,849)	(19,200)	(22,510)
Preferred distributions	(646)	(22,814)	(26,780)	(17,063)	(23,608)	(31,258)
<b>Total earnings</b>	<b>\$ 1,414,658</b>	<b>\$ 1,330,443</b>	<b>\$ 795,348</b>	<b>\$ 621,143</b>	<b>\$ 661,623</b>	<b>\$ 759,469</b>
<b>Fixed charges:</b>						
Interest expensed	\$ 217,598	\$ 298,260	\$308,091	\$306,170	\$299,436	\$263,067
Interest capitalized	20,627	5,921	5,718	10,849	19,200	22,510
<b>Total fixed charges</b>	<b>\$ 238,225</b>	<b>\$ 304,181</b>	<b>\$ 313,809</b>	<b>\$ 317,019</b>	<b>\$ 318,636</b>	<b>\$ 285,577</b>
Preferred distributions	646	22,814	26,780	17,063	23,608	31,258
<b>Total combined fixed charges and preferred distributions</b>	<b>\$ 238,871</b>	<b>\$ 326,995</b>	<b>\$ 340,589</b>	<b>\$ 334,082</b>	<b>\$ 342,244</b>	<b>\$ 316,835</b>
<b>Ratio of earnings to fixed charges</b>	<b>5.94</b>	<b>4.37</b>	<b>2.53</b>	<b>1.96</b>	<b>2.08</b>	<b>2.66</b>
<b>Ratio of earnings to combined fixed charges and preferred distributions</b>	<b>5.92</b>	<b>4.07</b>	<b>2.34</b>	<b>1.86</b>	<b>1.93</b>	<b>2.40</b>

## CERTIFICATION

I, Edward H. Linde, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Boston Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2007

/s/ EDWARD H. LINDE

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Edward H. Linde  
Chief Executive Officer

## CERTIFICATION

I, Douglas T. Linde, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Boston Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2007

/s/ DOUGLAS T. LINDE

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Douglas T. Linde  
Chief Financial Officer

## CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Boston Properties, Inc. (the "Company") hereby certifies to my knowledge that the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification shall not be deemed "filed" for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

Date: November 9, 2007

/s/ EDWARD H. LINDE

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Edward H. Linde  
Chief Executive Officer

## CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Boston Properties, Inc. (the "Company") hereby certifies to my knowledge that the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification shall not be deemed "filed" for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 regardless of any general incorporation language in such filing.

Date: November 9, 2007

/s/ DOUGLAS T. LINDE

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**Douglas T. Linde**  
**Chief Financial Officer**