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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2002

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

Commission File Number 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**04-2473675** (IRS Employer Id. Number)
111 Huntington Avenue **Boston, Massachusetts** (Address of principal executive offices)	**02199** (Zip Code)

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

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 o

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

Common Stock, Par Value $.01 (Class)	**91,294,665** **(Outstanding on May 13, 2002)**

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2002	December 31, 2001
	(in thousands, except for share amounts)	
ASSETS		
Real estate:	$ 7,539,708	$ 7,457,906
Less: accumulated depreciation	(755,156)	(719,854)
Total real estate	6,784,552	6,738,052
Cash and cash equivalents	71,007	98,067
Escrows	45,216	23,000
Investments in securities	—	4,297
Tenant and other receivables	36,846	43,546
Accrued rental income	133,885	119,494
Deferred charges, net	101,580	107,573
Prepaid expenses and other assets	30,235	20,996
Investments in unconsolidated joint ventures	98,071	98,485
Total assets	$ 7,301,392	$ 7,253,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes and bonds payable	$ 4,361,233	$ 4,314,942
Accounts payable and accrued expenses	56,125	81,108
Dividends and distributions payable	79,985	79,561
Interest rate contracts	8,635	11,147
Accrued interest payable	15,032	9,080
Other liabilities	75,465	58,859
Total liabilities	4,596,475	4,554,697
Commitments and contingencies	—	—
Minority interests	829,687	844,740
Series A Convertible Redeemable Preferred Stock, liquidation preference $50.00 per share, 2,000,000 shares issued and outstanding	100,000	100,000
Stockholders' equity:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 250,000,000 shares authorized, 91,137,874 and 90,780,591 issued and outstanding in 2002 and 2001, respectively	911	908
Additional paid-in capital	1,809,836	1,789,521
Dividends in excess of earnings	(15,084)	(17,669)
Treasury common stock, at cost	(2,722)	(2,722)
Unearned compensation	(3,843)	(2,097)
Accumulated other comprehensive loss	(13,868)	(13,868)
Total stockholders' equity	1,775,230	1,754,073
Total liabilities and stockholders' equity	$ 7,301,392	$ 7,253,510

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

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended March 31, 2002	Three months ended March 31, 2001
	(in thousands, except for per share amounts)	
Revenue		
Rental:		
Base rent	$ 229,106	$ 184,768
Recoveries from tenants	27,712	25,891
Parking and other	12,096	13,746
Total rental revenue	268,914	224,405
Development and management services	4,134	3,397
Interest and other	1,272	4,444
Total revenue	274,320	232,246
Expenses		
Operating	85,089	70,070
General and administrative	11,069	9,950
Interest	63,787	47,853
Depreciation and amortization	42,944	34,541
Loss on investments in securities	4,297	—
Total expenses	207,186	162,414
Income before net derivative losses, minority interests, income from unconsolidated joint ventures, minority interest in Operating Partnership, gain on sale of real estate, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	67,134	69,832
Net derivative losses	(303)	(3,055)
Minority interests in property partnerships	471	(255)
Income from unconsolidated joint ventures	1,682	1,127
Income before minority interest in Operating Partnership, gain on sale of real estate, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	68,984	67,649
Minority interest in Operating Partnership	(18,386)	(18,878)
Income before gain on sale, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	50,598	48,771
Gain on sale of real estate, net of minority interest	—	4,654
Income before discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	50,598	53,425
Discontinued Operations:		
Income from discontinued operations, net of minority interest	570	592
Gain on sales of real estate from discontinued operations, net of minority interest	5,840	—
Income before cumulative effect of a change in accounting principle and preferred dividend	57,008	54,017
Cumulative effect of a change in accounting principle, net of minority interest	—	(6,767)
Net income before preferred dividend	57,008	47,250
Preferred dividend	(1,643)	(1,643)
Net income available to common shareholders	$ 55,365	$ 45,607
Basic earnings per share:		
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 0.54	$ 0.58
Discontinued operations	0.07	0.01
Cumulative effect of a change in accounting principle	—	(0.08)
Net income available to common shareholders	$ 0.61	$ 0.51
Weighted average number of common shares outstanding	90,932	88,688
Diluted earnings per share:		
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 0.53	$ 0.57
Discontinued operations	0.07	—
Cumulative effect of a change in accounting principle	—	(0.07)
Net income available to common shareholders	$ 0.60	$ 0.50

Weighted average number of common and common equivalent shares outstanding	92,783	91,171

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

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

	For the three months ended March 31,	
	2002	**2001**
	(unaudited and in thousands)	
Net income available to common shareholders	$ 55,365	$ 45,607
Other comprehensive loss:		
Unrealized losses on investments in securities:		
Unrealized holding losses arising during the period	—	(637)
Less: reclassification adjustment for the cumulative effect of a change in accounting principle included in net income available to common shareholders	—	6,853
Unrealized derivative losses:		
Transition adjustment of interest rate contracts	—	(11,414)
Effective portion of interest rate contracts	—	(2,454)
Other comprehensive loss	—	(7,652)
Comprehensive income	$ 55,365	$ 37,955

The accompanying notes are an integral part of these financial statements

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended March 31,	
	2002	**2001**
	(unaudited and in thousands)	
Cash flows from operating activities:		
Net income before preferred dividend	$ 57,008	$ 47,250
Adjustments to reconcile net income before preferred dividend to net cash provided by operating activities:		
Depreciation and amortization	42,944	34,740
Non-cash portion of interest expense	1,363	732
Non-cash compensation expense	243	144
Loss on investments in securities	4,297	—
Non-cash portion of derivative losses	(1,402)	3,055
Minority interest in property partnerships	(1,394)	255
Distributions in excess of earnings from unconsolidated joint ventures	1,249	(1,127)
Minority interest in Operating Partnership	19,819	18,507
Gain on sales of real estate	(7,146)	(5,802)
Cumulative effect of a change in accounting principle	—	8,432
Change in assets and liabilities:		
Escrows	(22)	(1,910)
Tenant and other receivables, net	6,700	2,409
Accrued rental income, net	(14,530)	(5,991)
Prepaid expenses and other assets	(7,683)	7,373
Accounts payable and accrued expenses	(6,540)	(1,406)
Accrued interest payable	5,952	2,528
Other liabilities	8,549	5,017

Tenant leasing costs	(2,305)	(4,986)
Total adjustments	50,094	61,970
Net cash provided by operating activities	107,102	109,220
Cash flows from investing activities:		
Acquisitions/additions to real estate	(116,532)	(181,428)
Investments in unconsolidated joint ventures	(835)	(1,458)
Net proceeds from the sale of real estate	22,194	6,613
Proceeds from the sale of real estate placed in escrow	(22,194)	—
Deposits on real estate	8,057	—
Net cash used in investing activities	(109,310)	(176,273)
Cash flows from financing activities:		
Borrowings on unsecured line of credit	10,000	—
Repayments of unsecured line of credit	(10,000)	—
Repayments of mortgage notes	(11,086)	(51,784)
Proceeds from mortgage notes	57,323	87,065
Bonds payable proceeds released from escrow	—	57,610
Dividends and distributions	(72,532)	(66,109)
Proceeds from stock transactions	1,475	1,585
Deferred financing costs	(32)	(452)
Net cash provided by (used in) financing activities	(24,852)	27,915
Net decrease in cash and cash equivalents	(27,060)	(39,138)
Cash and cash equivalents, beginning of period	98,067	280,957
Cash and cash equivalents, end of period	$ 71,007	$ 241,819
Supplemental disclosures:		
Cash paid for interest	$ 64,318	$ 60,606
Interest capitalized	$ 7,846	$ 16,013
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	$ 18,031	$ 1,565
Dividends and distributions declared but not paid	$ 79,985	$ 71,917
Issuance of Minority Interest in connection with the acquisition of real estate	$ 675	$ —
Conversions of Minority Interest to Stockholders' Equity	$ —	$ 95,463
Basis adjustment in connection with conversions of Minority Interest to Stockholders' Equity	$ —	$ 30,074
Issuance of restricted shares to employees	$ 1,989	$ 1,827
Unrealized loss on investments in securities	$ —	$ 637

The accompanying notes are an integral part of these financial statements

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Boston Properties, Inc. (the "Company"), a Delaware corporation, is a self-administered and self-managed real estate investment trust ("REIT"). The Company is the sole general partner of Boston Properties Limited Partnership (the "Operating Partnership") and at March 31, 2002, owned an approximate 75.2% 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") or "preferred units of partnership interest" (also referred to as "Preferred Units"). All references to OP Units and Preferred Units exclude such 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 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"), except that, the Company may, at its election, in lieu of a cash redemption, 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. Each series of Preferred Units bears a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be convertible into OP Units at the election of the holder thereof or the Company.

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

As of March 31, 2002, the Company and the Operating Partnership had 91,137,874 and 20,645,339 shares of Common Stock and OP Units outstanding, respectively. In addition, the Company had 2,000,000 shares of Preferred Stock and the Operating Partnership had 8,687,314 Preferred Units outstanding.

The Properties:

As of March 31, 2002, the Company owned and had interests in a portfolio of 144 commercial real estate properties (147 and 146 properties at December 31, 2001 and March 31, 2001, respectively) (the "Properties") aggregating over 41.2 million square feet. The properties consist of 136 office properties with approximately 33.6 million net rentable square feet (including 10 properties under development expected to contain approximately 4.3 million net rentable square feet) and approximately 6.0 million additional square feet of structured parking for 18,484 vehicles, five industrial properties with approximately 0.6 million net rentable square feet and three hotels with a total of 1,054 rooms (consisting of approximately 1.0 million square feet). In addition, the Company owned, had under contract, or had an option to acquire 42 parcels of land totaling approximately 552.0 acres, which will support approximately 8.9 million square feet of development.

2. Basis of Presentation and Summary of Significant Accounting Policies

The consolidated financial statements of the Company include all the accounts of the Company, its majority-owned Operating Partnership and subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the

Company's financial statements and notes thereto contained in the Company's annual report on Form 10-K for its fiscal year ended December 31, 2001.

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 presentation 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.

Certain prior-year balances have been reclassified in order to conform to the current-year presentation.

In October 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes FASB SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions for disposals of a segment of a business as addressed in APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and addresses various implementation issues of SFAS No. 121. In addition, SFAS No. 144 extends the reporting requirements of discontinued operations to include components of an entity that have either been disposed of or are classified as held for sale. The Company adopted SFAS No. 144 as of January 1, 2002. The Company's adoption of SFAS No. 144 resulted in the presentation of the net operating results of properties sold during the three months ended March 31, 2002, as income from discontinued operations for all periods presented. SFAS No. 144 also resulted in the presentation of the gain on sale of properties sold during the three months ended March 31, 2002, as gain on sale of real estate from discontinued operations for all periods presented. The adoption of SFAS No. 144 did not have an impact on net income available to common shareholders. SFAS No. 144 only impacted the presentation of these properties within the consolidated statements of operations.

3. Real Estate Activity During the Quarter Ended March 31, 2002

During the quarter ended March 31, 2002, the Company placed in service two development projects consisting of Five Times Square, a 1,099,154 square foot office building in New York City and 7300 Boston Boulevard, a 32,000 square foot office/technical building in Springfield, Virginia.

On March 4, 2002 the Company disposed of Fullerton Square consisting of two office/technical properties totaling 179,453 square feet in Springfield, Virginia for net proceeds of approximately $22.2 million, resulting in a gain on sale of approximately $5.8 million (net of minority interest share of approximately $1.3 million). In addition, the Company disposed of 7600, 7700 and 7702 Boston Boulevard consisting of three office/technical properties totaling approximately 195,227 square feet in Springfield, Virginia. Due to the structure of the transaction and certain continuing involvement provisions related to the three Boston Boulevard properties, that transaction does not qualify as a sale

for financial reporting purposes and has been accounted for as a financing transaction. Under the financing method, the cost of real estate and other assets totaling approximately $15.5 million continues to be reflected within the accompanying consolidated balance sheets, the cash received from the buyer totaling approximately $8.1 million has been recorded in other liabilities and notes receivable totaling approximately $18.9 million have not been reflected in the financial statements. The Company expects to complete this transaction during the fourth quarter of 2002, upon the completion of the construction of the 7702 Boston Boulevard property.

4. Investments in Securities

During the quarter ended March 31, 2002, the Company realized a loss totaling $4.3 million resulting from the write-down of its investment in the securities of a technology company. The Company determined that the decline in the fair value of these securities was other than temporary.

5. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following:

Entity	Property	% Ownership
One Freedom Square LLC	One Freedom Square	25%(1)
Square 407 LP	Market Square North	50%
The Metropolitan Square Associates LLC	Metropolitan Square	51%
BP 140 Kendrick Street LLC	140 Kendrick Street	25%(1)
BP/CRF 265 Franklin Street Holdings LLC	265 Franklin Street	35%
Discovery Square LLC	Discovery Square(2)	50%
BP/CRF 901 New York Avenue LLC	901 New York Ave.(2)	25%(1)
Two Freedom Square LLC	Two Freedom Square(2)	50%

(1) Ownership can increase based on certain return thresholds

(2) Property is currently under development

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

	March 31, 2002	December 31, 2001
ASSETS		
Real estate, net	$ 727,527	$ 720,568
Other assets	41,058	40,670
Total assets	$ 768,585	$ 761,238
LIABILITIES AND PARTNERS' EQUITY		
Mortgage and construction loans payable	$ 520,697	$ 507,865
Other liabilities	13,667	16,497
Partners' equity	234,221	236,876
Total liabilities and partners' equity	$ 768,585	$ 761,238
Company's share of equity	$ 98,071	$ 98,485

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

	Three months Ended March 31,	
	2002	2001
Total revenue	$ 20,906	$ 20,478
Expenses		
Operating	6,073	5,762
Interest	8,100	8,539
Depreciation and amortization	3,431	3,139
Total expenses	17,604	17,440
Net income	$ 3,302	$ 3,038
Company's share of net income	$ 1,682	$ 1,127

6. Mortgage Notes and Bonds Payable

On March 8, 2002, the Company obtained construction financing totaling $24.0 million collateralized by the Shaws Supermarket development project at the Prudential Center in Boston, Massachusetts. Such financing bears interest at a rate equal to LIBOR + 1.40% and matures in September 2003. As of March 31, 2002, $5.6 million had been drawn on the construction loan.

7. Minority Interests

Minority interests in the Company relate to the interest in the Operating Partnership not owned by Boston Properties, Inc. and an interest in a property partnership that is not owned by the Company. As of March 31, 2002, the minority interest in the Operating Partnership consisted of 20,645,339 OP Units and 8,687,314 Preferred Units held by parties other than Boston Properties, Inc.

On February 15, 2002, the Operating Partnership paid a distribution on 2,482,026 Series One Preferred Units of $0.61625 per unit and paid a distribution on the 6,213,131 Series Two and Three Preferred Units of $0.786990 per unit.

On March 18, 2002, Boston Properties, Inc., as general partner of the Operating Partnership determined a distribution on the OP Units in the amount of $0.58 per OP Unit payable on April 30, 2002 to OP Unit holders of record on March 29, 2002.

8. Redeemable Preferred Stock and Stockholders' Equity

On February 15, 2002, the Company paid a dividend on the 2,000,000 shares of Series A Convertible Redeemable Preferred Stock $50 liquidation preference per share (the "Preferred Stock") of $0.786990 per share. In addition, on March 18, 2002, the Board of Directors of the Company declared a dividend of $0.792470 per share on the Preferred Stock payable on May 15, 2002 to shareholders of record on March 29, 2002. These shares of Preferred Stock are not classified as equity as in certain instances they are convertible into shares of Common Stock at the election of the holder after December 31, 2002 or are redeemable for cash at the election of the holder in six annual tranches commencing on May 12, 2009.

On March 18, 2002, the Board of Directors of the Company declared a first quarter dividend in the amount of $0.58 per share of Common Stock payable on April 30, 2002 to shareholders of record on March 29, 2002.

9. Stock Option and Incentive Plan

During the quarter ended March 31, 2002, the Company issued 1,397,000 options to acquire shares of Common Stock at the price per share of Common Stock at the date of grant ($37.70). The options vest over a three-year period, with one-third of the options vesting each year. In addition, the Company issued 52,750 shares of restricted stock valued at approximately $2.0 million ($37.70 per share). The restricted stock vests over a five-year period, with one-fifth of the shares vesting each year and has been recognized as unearned compensation on the consolidated balance sheets. As of March 31, 2002, the Company had outstanding options with respect to 12,223,944 shares of Common Stock.

10. Earnings Per Share

	Three Months Ended March 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	$ 55,365	90,932	$ 0.61
Effect of Dilutive Securities:			
Stock options and other	155	1,851	(0.01)
Diluted Earnings:			
Net income	$ 55,520	92,783	$ 0.60

	Three Months Ended March 31, 2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings:			
Income available to common shareholders	$ 45,607	88,688	$ 0.51
Effect of Dilutive Securities:			
Stock options and other	—	2,483	(0.01)
Diluted Earnings:			
Net income	$ 45,607	91,171	$ 0.50

Preferred Stock and Units outstanding in 2002 and 2001 were not included in the computation of diluted earnings per share as such Preferred Stock and Units were anti-dilutive during the respective periods.

11. 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 and Pennsylvania. Segments by property type include: Class A Office, Office/Technical, Industrial and Hotels.

Asset information by segment is not reported since the Company does not use this measure to assess performance, therefore, the depreciation and amortization expenses are not allocated among segments. Interest income, management and development services, interest expense and general and administrative expenses are not included in net operating income as the internal reporting addresses these on a corporate level.

Information by geographic area and property type:

Three months ended March 31, 2002:

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey/ Pennsylvania	Total
Rental Revenue:						
Class A	$ 60,152	$ 56,644	$ 69,495	$ 55,086	$ 16,398	$ 257,775
Office/Technical	2,143	3,332	—	490	—	5,965
Industrial	233	—	—	356	188	777
Hotels	4,397	—	—	—	—	4,397
Total	66,925	59,976	69,495	55,932	16,586	268,914
% of Total	24.89%	22.30%	25.84%	20.80%	6.17%	100.00%
Rental Expenses:						
Class A	21,872	14,937	21,229	18,780	5,566	82,384
Office/Technical	412	661	—	88	—	1,161
Industrial	83	—	—	57	37	177
Hotels	1,367	—	—	—	—	1,367
Total	23,734	15,598	21,229	18,925	5,603	85,089
% of Total	27.89%	18.33%	24.95%	22.24%	6.59%	100.00%
Net Operating Income	$ 43,191	$ 44,378	$ 48,266	$ 37,007	$ 10,983	$ 183,825
% of Total	23.50%	24.14%	26.26%	20.13%	5.97%	100.00%

Three months ended March 31, 2001:

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey/ Pennsylvania	Total
Rental Revenue:						
Class A	$ 51,562	$ 54,922	$ 36,412	$ 51,655	$ 16,708	$ 211,259
Office/Technical	1,702	3,091	—	511	—	5,304
Industrial	433	351	—	398	151	1,333
Hotels	6,509	—	—	—	—	6,509
Total	60,206	58,364	36,412	52,564	16,859	224,405
% of Total	26.83%	26.01%	16.23%	23.42%	7.51%	100.00%
Rental Expenses:						
Class A	18,125	14,260	12,600	17,049	5,089	67,123
Office/Technical	526	647	—	82	—	1,255
Industrial	167	148	—	56	30	401
Hotels	1,291	—	—	—	—	1,291
Total	20,109	15,055	12,600	17,187	5,119	70,070
% of Total	28.70%	21.48%	17.98%	24.53%	7.31%	100.00%
Net Operating Income	$ 40,097	$ 43,309	$ 23,812	$ 35,377	$ 11,740	$ 154,335

% of Total	25.98%	28.06%	15.43%	22.92%	7.61%	100.00%

The following is a reconciliation of net operating income to income before minority interests and joint venture income:

	Three Months Ended March 31,	
	2002	2001
Net operating income	$ 183,825	$ 154,335
Add:		
Development and management services	4,134	3,397
Interest and other	1,272	4,444
Less:		
General and administrative	(11,069)	(9,950)
Interest expense	(63,787)	(47,853)
Depreciation and amortization	(42,944)	(34,541)
Loss on investments in securities	(4,297)	—
Income before minority interests and joint venture income	$ 67,134	$ 69,832

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Report on Form 10-Q contains forward-looking statements within the meaning the federal securities laws. Actual results or developments could differ materially from those projected in such statements as a result of certain factors set forth in the section below entitled "Certain Factors Affecting Future Operating Results" and elsewhere in this report.

Critical Accounting Policies

The SEC published cautionary advice in December 2001 regarding MD&A disclosure of critical accounting policies. In response to that release the Company believes the following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

Real Estate

Real estate is stated at depreciated cost. The Company periodically reviews its properties to determine if their carrying amounts will be recovered from future operating cash flows. If the Company determines that an impairment has occurred, those assets shall be reduced to fair value. No such impairment losses have been recognized to date.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in joint ventures, which it does not control, using the equity method of accounting. Under the equity method of accounting, the net equity investment of the Company is reflected on the consolidated balance sheets, and the Company's share of net income or loss from the joint ventures is included on the consolidated statements of operations.

The Company serves as the development manager for the joint ventures currently under development. The profit on development fees received from joint ventures is recognized to the extent attributable to the outside interests in the joint ventures.

Revenue Recognition

Base rental revenue is reported on a straight-line basis over the terms of the respective leases. Accrued rental income represents rental income earned in excess of rent payments received pursuant to the terms of the individual lease agreements. The Company maintains an allowance for estimated losses that may result from the inability of the Company's tenants to make required payments.

Property operating cost reimbursements due from tenants for common area maintenance, real estate taxes and other recoverable costs are recognized in the period the expenses are incurred.

Development fees are recognized ratably over the period of development. Management fees are recognized as revenue as they are earned.

The estimated fair value of warrants received in conjunction with communications license agreements are recognized over the ten-year effective terms of the license agreements.

Gains from sales of real estate at the time of sale using the full accrual method, provided that various criteria related to the terms of the transactions and any subsequent involvement by the Company with the properties sold are met. If the criteria are not met, the Company defers the gains and recognizes them when the criteria are met or using the finance, installment or cost recovery methods, as appropriate under the circumstances.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its taxable year ended December 31, 1997. As a result, the Company generally will not be subject to federal corporate income tax on its taxable income that is distributed to its stockholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income. The Company's policy is to distribute 100% of its taxable income. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements.

From January 1, 2001 through March 31, 2002, the Company's portfolio decreased from 146 properties to 144 properties (the "Total Portfolio"). As a result of changes in the Company's Total Portfolio, the financial data presented below shows significant changes in revenue and expenses from period to period. The Company does not believe that its period-to-period financial data are comparable. Therefore, the comparison of operating results for the three months ended March 31, 2002 and 2001 show separately changes attributable to the properties that were owned by the Company for all of each period compared (the "Same Property Portfolio") and the changes attributable to the Total Portfolio.

Results of Operations

Comparison of the three months ended March 31, 2002 to the three months ended March 31, 2001.

The table below reflects selected operating information for the Same Property Portfolio and the Total Portfolio. The Same Property Portfolio consists of the 120 properties acquired or placed in service on or prior to January 1, 2001 and owned by the Company through March 31, 2002.

	SAME PROPERTY PORTFOLIO			
	2002	2001	INCREASE/ (DECREASE)	% CHANGE
	(Dollars in thousands)			
Revenue:				
Rental revenue	$ 223,920	$ 222,506	$ 1,414	0.64%
Development and management services	—	—	—	—
Interest and other	—	—	—	—
Unconsolidated joint venture income	1,210	1,087	123	11.32%
Total revenue	225,130	223,593	1,537	0.69%
Expenses:				
Operating	71,845	68,485	3,360	4.91%
General and administrative	—	—	—	—
Interest	—	—	—	—
Depreciation and amortization	34,846	34,247	599	1.75%
Total expenses	106,691	102,732	3,959	3.85%
Income before minority interests and net derivative losses	$ 118,439	$ 120,861	(2,422)	(2.00)%

	TOTAL PORTFOLIO			
	2002	2001	INCREASE/ (DECREASE)	% CHANGE
	(Dollars in thousands)			
Revenue:				
Rental revenue	$ 268,914	$ 224,405	$ 44,509	19.83%
Development and management services	4,134	3,397	737	21.70%
Interest and other	1,272	4,444	(3,172)	(71.38)%
Unconsolidated joint venture income	1,682	1,127	555	49.25%
Total revenue	276,002	233,373	42,629	18.27%
Expenses:				
Operating	85,089	70,070	15,019	21.43%
General and administrative	11,069	9,950	1,119	11.25%
Interest	63,787	47,853	15,934	33.30%
Depreciation and amortization	42,944	34,541	8,403	24.33%
Loss on investments in securities	4,297	—	4,297	—
Total expenses	207,186	162,414	44,772	27.57%

Income before minority interests and net derivative losses	$	68,816	$	70,959	(2,143)	(3.02)%

The increase in rental revenue in the Company's Same Property Portfolio is primarily a result of an overall increase in rental rates on new leases and rollovers and an increase in reimbursable operating expenses offset by a decrease in termination fees and early surrender income and a decrease in occupancy from quarter to quarter. Rental revenue is comprised of base rent, including termination fees, recoveries from tenants and parking and other. Base rental revenue is recognized on a straight-line basis over the terms of the respective leases. Accrued rental income represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements. Straight line rent for the quarter ended March 31, 2002 was $14.8 million compared to $6.0 million for the quarter ended March 31, 2001. Termination fees and early surrender income decreased from $1.2 million for the quarter ended March 31, 2001 to $0.5 million for the quarter ended March 31, 2002. The occupancy for the Same Property Portfolio decreased from 98.5% as of March 31, 2001 to 95.2% as of March 31, 2002. Additional increases in rental revenues in the total portfolio are primarily the result of rental revenues earned on properties the Company acquired or placed in service after January 1, 2000 offset by a decrease in overall occupancy from 98.4% to 95.1%.

The increase in development and management services revenue is mainly due to an incentive fee of approximately $0.2 million received on a development project resulting from meeting certain development deadlines.

The decrease in interest and other revenue is a result of less interest earned due to lower average cash balances maintained during the quarter ended March 31, 2002 as compared to the quarter ended March 31, 2001. During the quarter ended March 31, 2001, the higher average cash balance was a result of the proceeds remaining from the public offering in October 2000.

Unconsolidated joint venture income increased as a result of income earned on joint venture properties being placed in service during 2001 and income earned on joint venture properties acquired after January 1, 2001.

The Company accounts for its investments in unconsolidated joint ventures, which it does not control, using the equity method of accounting. 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 the Company's balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over 40 years.

Property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Same Property Portfolio increased mainly due to increases in real estate taxes of $1.2 million, or 4.2%, increases in insurance of $1.7 million, or 140.6%, offset by decreases in utilities of $1.4 million, or 13.7%. Most office leases include reimbursement for these operating expenses. The increase in insurance is primarily due to higher rates resulting from the events surrounding September 11, 2001. The increase in real estate taxes was primarily due to higher property tax assessments. Small increases in the other property operating expenses account for the remaining difference. Additional increases in property operating expenses in the Total Portfolio were due to properties the Company acquired or placed in service after January 1, 2001.

General and administrative expenses increased mainly due an overall increase in compensation.

Interest expense for the Total Portfolio increased as a result of having a higher average outstanding debt balance as compared to the prior period. The Company's debt outstanding at March 31, 2002 was approximately $4.4 billion, compared to $3.5 billion at March 31, 2001. This was partially offset by a decrease in the Company's weighted average interest rates over the year from 7.26% at March 31, 2001 to 6.52% at March 31, 2002.

Costs directly related to the development of rental properties are capitalized. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the quarters ended March 31, 2002 and 2001 were $1.2 million and $1.7 million, respectively. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the quarters ended March 31, 2002 and 2001 was $7.8 million and $16.1 million, respectively. These costs are not included in the interest expense discussed above.

Depreciation and amortization expense for the Same Property Portfolio increased as a result of capital and tenant improvements made after March 31, 2001. Additional increases in depreciation and amortization expense for the Total Portfolio were mainly due to the properties the Company acquired or placed in service after January 1, 2001 and related capital and tenant improvements.

The decrease in net derivative losses from $3.1 million for the quarter ended March 31, 2001 to $0.3 million for the quarter ended March 31, 2002 is primarily a result of an increase in the Company's fair value of its remaining interest rate contracts. In addition, we repaid two interest rate contracts and a swap contract during 2001 which all had negative fair values. This was offset by the change in fair value of the Company's Series Z preferred stock. Although the Series Z preferred stock was converted into common units, the Company recorded the change in value through the conversion date based on the change in the Company's common stock price.

The gain on sale for the quarter ended March 31, 2002 is a result of the disposition of Fullerton Square, consisting of two office/technical properties totaling 179,453 square feet in Springfield, Virginia for net proceeds of approximately $22.2 million. This resulted in a gain on sale of approximately $5.8 million (net of minority interest share of approximately $1.3 million). The gain on sale for the quarter ended March 31, 2001 is a result of the disposition of 25–33 Dartmouth Street in Westwood, Massachusetts, an industrial building totaling approximately 78,000 square feet. The Company received net proceeds of approximately $6.6 million, resulting in a gain on sale of approximately $4.7 million (net of minority interest share of approximately $1.1 million).

Liquidity and Capital Resources

The Company's consolidated indebtedness at March 31, 2002 was approximately $4.4 billion and bore interest at a weighted average interest rate of approximately 6.52% per annum. Based on the

Company's total market capitalization at March 31, 2002 of approximately $9.3 billion, the Company's consolidated debt represents 47.0% of its total market capitalization.

The Company has a $605 million Unsecured Line of Credit with Fleet National Bank, as agent. The Company uses the Unsecured Line of Credit principally to facilitate its development and acquisition activities and for working capital purposes. As of May 10, 2002, the Company had no amounts outstanding under the Unsecured Line of Credit.

The following represents the outstanding principal balances due under the first mortgages at March 31, 2002:

Properties	Interest Rate	Principal Amount	Maturity Date
		(in thousands)	
Citigroup Center	7.19%	520,738	May 11, 2011
Embarcadero Center One, Two and Federal Reserve	6.70%	307,915	December 10, 2008
5 Times Square(1)	3.90%	309,486	January 26, 2003
Prudential Center	6.72%	287,064	July 1, 2008
280 Park Avenue	7.64%	267,159	February 1, 2011
599 Lexington Avenue(2)	7.00%	225,000	July 19, 2005
111 Huntington Avenue(3)	3.66%	193,277	September 27, 2002
Times Square Tower(4)	3.85%	158,876	November 29, 2004
Embarcadero Center Four	6.79%	151,082	February 1, 2008
875 Third Avenue(5)	8.00%	148,228	January 1, 2003
Embarcadero Center Three	6.40%	144,023	January 1, 2007
Two Independence Square (6)	8.09%	114,771	February 27, 2003
Riverfront Plaza	6.61%	112,626	February 1, 2008
Democracy Center	7.05%	105,587	April 1, 2009
Embarcadero Center West Tower	6.50%	96,085	January 1, 2006
100 East Pratt Street	6.73%	89,956	November 1, 2008
601 and 651 Gateway Boulevard	8.40%	89,061	October 1, 2010
One Independence Square(7)	3.50%	75,000	August 20, 2003
Reservoir Place(8)	6.88%	71,283	November 1, 2006
One & Two Reston Overlook	7.45%	67,300	August 31, 2004
2300 N Street	6.88%	66,000	August 3, 2003
202, 206, 214 Carnegie Center	8.13%	62,261	October 1, 2010
New Dominion Technology Park, Building 1	7.70%	57,589	January 15, 2021
Capital Gallery	8.24%	55,775	August 15, 2006
Waltham Weston Corporate Center(9)	3.64%	52,644	February 13, 2004
504,506,508 Carnegie Center	7.39%	47,225	January 1, 2008
10 and 20 Burlington Mall Road(10)	7.25%	39,760	October 1, 2011
10 Cambridge Center	8.27%	35,101	May 1, 2010
1301 New York Avenue	(11)	31,395	August 15, 2009
Sumner Square	7.35%	30,075	September 1, 2013
Quorum Office Park(12)	3.55%	29,041	August 25, 2003
2600 Tower Oaks Boulevard(13)	3.81%	27,924	September 20, 2002
Eight Cambridge Center	7.73%	27,852	July 15, 2010
510 Carnegie Center	7.39%	27,047	January 1, 2008
Lockheed Martin Building	6.61%	25,616	June 1, 2008
Orbital Sciences—Buildings One and Three(14)	3.56%	25,572	August 19, 2002
University Place	6.94%	24,530	August 1, 2021
Reston Corporate Center	6.56%	24,166	May 1, 2008
Orbital Sciences—Building Two(15)	3.55%	23,611	June 13, 2003
191 Spring Street	8.50%	22,359	September 1, 2006
Bedford Business Park	8.50%	21,036	December 10, 2008
NIMA Building	6.51%	20,937	June 1, 2008
40 Shattuck Road(16)	3.65%	15,283	October 21, 2003
101 Carnegie Center	7.66%	7,969	April 1, 2006
Montvale Center	8.59%	7,383	December 1, 2006
302 Carnegie Center(17)	3.73%	6,969	April 1, 2003
Shaws Supermarket	3.30%	5,561	September 8, 2003
Hilltop Business Center	6.81%	5,545	March 1, 2019
201 Carnegie Center	7.08%	442	February 1, 2010
Total		$ 4,361,233	

(1) Total construction loan in the amount of $420.0 million at a variable rate of Eurodollar + 2.00%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

(2) At maturity the lender has the option to purchase a 33.33% interest in this property in exchange for the cancellation of the principal balance of $225.0 million.

(3) Total construction loan in the amount of $203.0 million at a variable rate of LIBOR + 2.00%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

(4) Total construction loan in the amount of $493.5 million at a variable rate of Eurodollar + 1.95%. The maturity date can be extended for one six month period and two one-year periods based on meeting certain conditions.

(5) The principal amount and interest rate shown has been adjusted to reflect the fair value of the note. The stated principal balance at March 31, 2002 was $147.3 million and the interest rate was 8.75%.

(6) The principal amount and interest rate shown has been adjusted to reflect the effective rate on the loan. The stated principal balance at December 31, 2001 was $115.0. The stated interest rate is 8.50% and continues at such rate through the loan expiration.

(7) Outstanding principal bears interest at a floating rate of LIBOR + 1.75%.

(8) The principal amount and interest rate shown has been adjusted to reflect the fair value of the note. The stated principal balance at March 31, 2002 was $64.5 million and the interest rate was 9.65%.

(9) Total construction loan in the amount of $70.0 million at a variable rate of LIBOR + 1.70%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

(10) Includes outstanding indebtedness secured by 91 Hartwell Avenue.

(11) Includes outstanding principal in the amounts of $19.7 million, $7.8 million and $4.0 million which bear interest at fixed rates of 6.70%, 8.54% and 6.75%, respectively.

(12) Total construction loan in the amount of $32.3 million at a variable rate of LIBOR + 1.65%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

(13) Total construction loan in the amount of $32.0 million at a variable rate of LIBOR + 1.90%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

(14) Total construction loan in the amount of $27.0 million at a variable rate of Eurodollar + 1.65%. The maturity date can be extended for a one-year period based on meeting certain conditions.

(15) Total construction loan in the amount of $25.1 million at a variable rate of Eurodollar + 1.65%. The maturity date can be extended for a one-year period based on meeting certain conditions.

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(16) Total construction loan in the amount of $16.0 million at a variable rate of Eurodollar + 1.75%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

(17) Total construction loan in the amount of $10.0 million at a variable rate of LIBOR + 1.85%. The maturity date can be extended for two one-year periods based on meeting certain conditions.

NOTE: LIBOR and Eurodollar rate contracts in effect on March 31, 2002 ranged from 3.30% to 3.90%. The LIBOR and Eurodollar rates at March 31, 2002 were 1.88%.

Joint Ventures

The Company has investments in eight unconsolidated joint ventures with ownership ranging from 25-51%. The Company does not have control of these partnerships, and therefore, they are accounted for using the equity method of accounting. At March 31, 2002, the Company's share of the debt related to these investments is equal to approximately $220.4 million. The table below summarizes the outstanding debt relative to the Company's investment in these joint venture properties at March 31, 2002:

Properties	Interest Rate		Principal Amount	Maturity Date
Metropolitan Square(51%)	8.23%	$	70,265	May 1, 2010
Market Square North(50%)	7.70%		49,194	December 19, 2011
Discovery Square(50%)	3.60%		25,362	December 8, 2003
Two Freedom Square(50%)	3.74%		23,409	June 29, 2004
One Freedom Square(25%)	7.75%		19,083	June 30, 2012
265 Franklin Street(35%)	3.41%		18,900	October 1, 2003
140 Kendrick Street(25%)	7.51%		14,163	July 1, 2013
Total	6.67%	$	220,376	

General

The Company has determined that its estimated cash flows and available sources of liquidity are adequate to meet liquidity needs for the next twelve months. The Company believes that its principal liquidity needs for the next twelve months are to fund normal recurring expenses, debt service requirements, current development costs not covered under construction loans and the minimum distribution required to maintain its REIT qualifications under the Internal Revenue Code of 1986, as amended. The Company believes that these needs will be fully funded from cash flows provided by operating and financing activities. The Company's operating properties and hotels require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. For the three months ended March 31, 2002, the Company's recurring capital expenditures totaled $2.9 million, $1.8 million, and $10.1 million for general capital expenditures, hotel capital expenditures, and tenant improvement and leasing commissions, respectively.

The Company expects to meet liquidity requirements for periods beyond twelve months for the costs of development, property acquisitions, scheduled debt maturities, major renovations, expansions and other non-recurring capital improvements through construction loans, the incurrence of long-term secured and unsecured indebtedness, income from operations and sales of real estate and possibly the issuance of additional common and preferred units of Boston Properties Limited Partnership and equity securities of Boston Properties, Inc. In addition, the Company may finance the development, redevelopment or acquisition of additional properties by using our unsecured revolving line of credit.

The Company has three construction loans maturing during 2002. The Company may exercise its extension options on these three loans. If the Company does not exercise its extension options, it will

utilize its $605 million Line of Credit or obtain permanent long term financing. All of these buildings are in excess of 95% leased.

The Company had construction projects in process, which require commitments to fund to completion. Equity commitments under these arrangements totaled approximately $194.6 million as of March 31, 2002. In addition, the Company has options to acquire land. If and when the Company exercises its option, the Company will fund the acquisitions using available cash or the Unsecured Line of Credit.

Based on leases in place at March 31, 2002, leases with respect to 2.18% of the Company's Class A office buildings will expire in the remaining three quarters of 2002. While the Company is working to retain its current tenants in situations that are beneficial to them, conditions over the past year, including more sublet space available and decreasing rental rates across the board, make it difficult to predict what future changes may be and how they will effect the Company's re-leasing efforts.

In addition, Arthur Andersen LLP has a lease for 620,947 square feet at Times Square Tower. Times Square Tower is a 1.2 million square foot office property that is expected to be completed during 2004. Because of our uncertainty over Arthur Andersen LLP's ultimate space needs, the Company has begun discussions with them about options ranging from reducing the size of the leased premises to termination of the lease. Meanwhile, the Company continues to actively market space in the building and is encouraged by the level of interest.

Insurance

In January 2002, the Company formed a wholly-owned subsidiary, IXP, Inc. (IXP), which will act as a captive insurance company to provide earthquake re-insurance coverage for the Company's Greater San Franciso properties. The accounts of IXP are consolidated within the Company. IXP is acting as a reinsurer for the Lexington insurance Company, rated AAA by Standard & Poors, for losses in excess of $25 million and any applicable deductibles, up to a $20.0 million limit. The Company has purchased earthquake insurance with coverage per occurrence and in the aggregate of $115 million, including the aforementioned $20.0 million that is reinsured by the Company's IXP subsidiary.

In response to recent market conditions, the Company has secured $250 million of terrorism coverage, in the aggregate, on a portfolio-wide basis. The Company will continue to monitor the state of the insurance market.

Funds from Operations

Management believes that Funds from Operations ("FFO") is helpful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. In accordance with the National Association of Real Estate Investment Trusts ("NAREIT") revised definition of FFO, the Company calculated FFO by adjusting net income (loss) (computed in accordance with accounting principles generally accepted in the United States, including non-recurring items), for gains (or losses) from debt restructuring and sales of properties (except gains and losses from sales of depreciable operating properties), real estate related depreciation and amortization and unconsolidated partnerships and joint ventures. The Company's FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with accounting principles generally accepted in the United States and should not be considered as an alternative to net income (determined in accordance with accounting principles generally accepted in the United States) as a measure of the Company's

liquidity, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

The following tables present the Company's FFO for the three months ended March 31, 2002 and 2001 (in thousands):

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Income from operations before minority interests and joint venture income	$ 67,134	$ 69,832
Add:		
Real estate depreciation and amortization	44,499	35,557

Income from discontinued operations		697		738
Income from unconsolidated joint ventures		1,682		1,127
Less:				
Derivative losses, net		303		3,055
Minority property partnerships' share of funds from operations		719		303
Preferred dividends and distributions		8,400		8,221
Funds from Operations	$	104,590	$	95,675
Add:				
Net derivative losses		303		3,055
Early surrender lease payments received — contractual basis		3,927		—
FFO before net derivative losses and after early surrender lease payments received.	$	108,820	$	98,730
FFO available to common shareholders before net derivative losses and after early surrender lease payments received	$	88,929	$	79,201

Reconciliation to Diluted Funds from Operations:

	Three Months Ended March 31, 2002			Three Months Ended March 31, 2001		
		Income (Numerator)	Shares (Denominator)		Income (Numerator)	Shares (Denominator)
Funds from Operations	$	108,820	111,272	$	98,730	110,556
Effect of Dilutive Securities						
Convertible Preferred Units		6,757	10,823		6,578	11,011
Convertible Preferred Stock		1,643	2,625		1,643	2,625
Stock Options		—	1,387		—	1,837
Diluted FFO	$	117,220	126,107	$	106,951	126,029
Company's share of diluted FFO before net derivative losses and after early surrender lease payments received	$	98,314	105,768	$	88,379	104,160

Newly Issued Accounting Standards

In October 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes FASB SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting

provisions for disposals of a segment of a business as addressed in APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and addresses various implementation issues of SFAS No. 121. In addition, SFAS No. 144 extends the reporting requirements of discontinued operations to include components of an entity that have either been disposed of or are classified as held for sale. The Company adopted SFAS No. 144 as of January 1, 2002. The Company's adoption of SFAS No. 144 resulted in the presentation of the net operating results of properties sold during the three months ended March 31, 2002, as income from discontinued operations for all periods presented. SFAS No. 144 also resulted in the presentation of the gain on sale of properties sold during the three months ended March 31, 2002, as gain on sale of real estate from discontinued operations for all periods presented. The adoption of SFAS No. 144 did not have an impact on net income available to common shareholders. SFAS No. 144 only impacted the presentation of these held for sale properties within the consolidated statements of operations.

Certain Factors Affecting Future Operating Results

This Report on Form 10-Q contains forward-looking statements within the meaning the federal securities laws regarding the Company's business, strategies, revenues, expenditures and operating and capital requirements. The following factors, among others, could cause actual results, performance or achievements of the Company to differ materially from those set forth or contemplated in the forward-looking statements made in this report: 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); risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments; failure to manage effectively the Company's growth and expansion into new markets or to integrate acquisitions 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 downturns in the national and local economies, increases in interest rates, and volatility in the securities markets; costs of compliance with the Americans with Disabilities Act and other similar laws; potential liability for uninsured losses and environmental contamination; risks associated with the Company's potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and possible adverse changes in tax and environmental laws; and risks associated with the Company's dependence on key personnel whose continued service is not guaranteed.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. The primary market risk facing the Company is mortgage debt, which bears interest primarily at fixed rates, and therefore, the fair value of these instruments is affected by changes in the market interest rates. The following table presents principal cash flows (in thousands) based upon maturity dates of the debt obligations and the related weighted average interest rates by expected maturity dates for the fixed rate debt. The interest rate of the variable rate debt as of March 31, 2002 ranged from LIBOR plus 1.00% to LIBOR plus 2.00%. At March 31, 2002, we had hedge contracts totaling $150 million. The hedging agreements provide for a fixed interest rate when LIBOR is less than 5.80% and when LIBOR is

between 6.70% and 9.00% for terms ranging from three to five years per the individual hedging agreements.

	Mortgage Debt (in thousands)							
	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Fixed Rate	$ 33,906	$ 372,843	$ 114,649	$ 277,880	$ 284,516	$ 2,354,145	3,437,939	$ 3,479,939
Weighted Average Interest Rate	7.32%	8.03%	7.35%	7.04%	7.79%	7.11%	7.27%	—
Variable Rate	$ 246,772	$ 465,001	$ 211,521	—	—	—	923,294	923,294

PART II. OTHER INFORMATION

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
10.1	Boston Properties Deferred Compensation Plan, effective March 1, 2002

(b) Reports on Form 8-K

A Form 8-K dated January 22, 2002 was filed with the Securities and Exchange Commission to report under Item 5 of such report the information presented to investors and analysts and the Company's press release for the quarter and year ended December 31, 2001.

SIGNATURE

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.

May 15, 2002

By: /s/ DOUGLAS T. LINDE

Douglas T. Linde,
Chief Financial Officer
(duly authorized officer and
principal financial officer)

QuickLinks

BOSTON PROPERTIES
Deferred Compensation Plan
MASTER PLAN DOCUMENT

EFFECTIVE MARCH 1, 2002

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BOSTON PROPERTIES
DEFERRED COMPENSATION PLAN
Effective March 1, 2002

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated Employees who contribute materially to the continued growth, development and future business success of Boston Properties Limited Partnership. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
DEFINITIONS

For the purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Sponsor equal to the sum of (i) the Deferral Account balance and (ii) the 401(k) Restoration Matching Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 "Annual Bonus" shall mean any compensation, in addition to Base Annual Salary, payable during the Plan Year to a Participant as an Employee under the Sponsor's annual bonus and cash incentive plans, excluding stock options and restricted stock, which the Benefits Committee, in its sole discretion, determines to be eligible for deferral under this Plan.

1.3 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary, Annual Bonus and/or LTIP Bonus that a Participant defers in accordance with Article 3 for any one Plan Year. In the event of a Participant's Retirement, death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.4 "Annual 401(k) Restoration Matching Amount" for any one Plan Year shall be the amount determined in accordance with Section 3.5.

1.5 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: (i) for the first annual installment, the Account Balance of the Participant shall be calculated as of the close of business on or around the last business day of the Plan Year in which the Participant Retires and (ii) for remaining annual installments, the Account Balance of the Participant shall be calculated on every applicable anniversary of the last business day of the Plan Year in which the Participant Retired. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual

payments due the Participant. By way of example, if the Participant elects a ten (10) year Annual Installment Method, the first payment shall be 1/10 of the Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the Account Balance, calculated as described in this definition. The first annual installment payment shall be paid no later than fifteen (15) days after the last day of the Plan Year in which the Participant Retires. Remaining annual installments shall be paid no later than fifteen (15) days after the last day of the applicable Plan Year.

1.6 "Base Annual Salary" shall mean the annual cash compensation included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, and automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of the Sponsor and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 132(f), 402(e)(3), 402(h), or 403(b) pursuant to plans established by the Sponsor; provided, however, that all such amounts will be included in compensation only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.

1.7 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 8, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.8 "Beneficiary Designation Form" shall mean the form established from time to time by the Benefits Committee that a Participant completes, signs and returns to the Benefits Committee to designate one or more Beneficiaries.

1.9 "Benefits Committee" shall mean the committee described in Article 11.

1.10 "Claimant" shall have the meaning set forth in Section 13.1.

1.11 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.12 "Compensation Committee" shall mean the Compensation Committee of the Board of Directors of Boston Properties, Inc.

1.13 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.14 "Election Form" shall mean the form established from time to time by the Benefits Committee that a Participant completes, signs and returns to the Benefits Committee to make an election under the Plan.

1.15 "Employee" shall mean a person who is an employee of the Sponsor or an affiliate of the Sponsor.

1.16 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.17 "First Plan Year" shall mean the period beginning March 1, 2002 and ending December 31, 2002.

1.18 "401(k) Plan" shall be the Boston Properties Retirement Savings Plan as in effect from time to time.

1.19 "401(k) Restoration Matching Account" shall mean (i) the sum of all of a Participant's Annual 401(k) Restoration Matching Amounts, plus (ii) amounts credited in accordance with all the applicable crediting and debiting provisions of this Plan that relate to the Participant's 401(k) Restoration Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's 401(k) Restoration Matching Account.

1.20 "LTIP Bonus" shall mean any compensation payable to a Participant as an Employee under the Sponsor's long-term incentive plan or any other long-term incentive arrangement designated by the Benefits Committee as eligible for deferral under this Plan.

1.21 "Participant" shall mean any Employee (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs an Election Form and a Beneficiary Designation Form,

(iv) whose signed Election Form and Beneficiary Designation Form are accepted by the Benefits Committee, (v) who commences participation in the Plan, and (vi) whose participation in the Plan has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.22 "Plan" shall mean the Boston Properties Deferred Compensation Plan, which shall be evidenced by this instrument, as it may be amended from time to time.

1.23 "Plan Year" shall, except for the First Plan Year, mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.24 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6.

1.25 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment with the Sponsor (or any affiliate thereof) for any reason other than a leave of absence or death, on or after the earlier of the attainment of (a) age sixty-five (65) or (b) age fifty-five (55) with seven (7) Years of Service.

1.26 "Retirement Benefit" shall mean the benefit set forth in Article 5.

1.27 "Short-Term Payout" shall mean the payout set forth in Section 4.1.

1.29 "Sponsor" shall mean Boston Properties Limited Partnership, a Delaware limited partnership, and any successor to all or substantially all of the Sponsor's assets or business.

1.30 "Termination Benefit" shall mean the benefit set forth in Article 7.

1.31 "Termination of Employment" shall mean the severing of employment with the Sponsor voluntarily or involuntarily, for any reason other than Retirement, death or an authorized leave of absence.

1.32 "Trust" shall mean one or more trusts, if any, established by the Sponsor in its sole discretion.

1.33 "Years of Service" shall mean the total number of full years in which a Participant has been employed by the Sponsor (or any affiliate thereof). For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. The Benefits Committee shall make a determination as to whether any partial year of employment shall be counted as a Year of Service.

ARTICLE 2
SELECTION, ENROLLMENT, ELIGIBILITY

2.1 SELECTION BY COMPENSATION COMMITTEE. Participation in the Plan shall be limited to a select group of management and highly compensated Employees of the Sponsor, as determined by the Compensation Committee in its sole discretion. From that group, the Compensation Committee shall select, in its sole discretion, Employees to participate in the Plan.

2.2 ENROLLMENT REQUIREMENTS. As a condition to participation, each selected Employee shall complete, execute and return to the Benefits Committee an Election Form and a Beneficiary Designation Form, all within thirty (30) days after he or she is selected to participate in the Plan. In addition, the Benefits Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 ELIGIBILITY; COMMENCEMENT OF PARTICIPATION. Provided an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Benefits

Committee, including returning all required documents to the Benefits Committee within the specified time period, that Employee shall commence participation in the Plan on the first day of the month following the month in which the Employee completes all enrollment requirements. If an Employee fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Benefits Committee of the required documents.

2.4 TERMINATION OF PARTICIPATION AND/OR DEFERRALS. If the Compensation Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Compensation Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the

Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3
DEFERRAL COMMITMENTS/ 401(k) RESTORATION MATCHING AMOUNTS/VESTING/CREDITING/TAXES

3.1 MINIMUM DEFERRALS.

(a) ANNUAL DEFERRAL AMOUNT. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, an aggregate minimum of $2,000 of Base Annual Salary, Annual Bonus and/or LTIP Bonus. If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred shall be zero.

(b) SHORT PLAN YEAR. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the minimum Annual Deferral Amount shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

3.2 MAXIMUM DEFERRAL.

(a) BASE ANNUAL SALARY, ANNUAL BONUS AND/OR LTIP BONUS. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, Base Annual Salary, Annual Bonus and/or LTIP Bonus up to the maximum percentages established by the Benefits Committee from time to time. For the First Plan Year, the maximum percentage for Base Annual Salary shall be twenty percent (20%) and no deferral shall be permitted from Annual Bonus or LTIP Bonus. The Benefits Committee may impose additional limitations on any Participant's Annual Deferral Amount in any Plan Year in which the Benefits Committee determines, in its sole discretion, that such additional limitation is in the best interests of the Sponsor.

(b) SHORT PLAN YEAR. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount (i) with respect to Base Annual Salary shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits an Election Form to the Benefits Committee for acceptance, and (ii) with respect to Annual Bonus and/or LTIP Bonus shall be limited to those amounts deemed eligible for deferral, in the sole discretion of the Benefits Committee.

3.3 ELECTION TO DEFER; EFFECT OF ELECTION FORM.

(a) FIRST PLAN YEAR. In connection with a Participant's commencement of participation in the Plan, the Participant shall make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Benefits Committee deems necessary or desirable under the Plan. For

these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Benefits Committee (in accordance with Section 2.2 above) and accepted by the Benefits Committee.

(b) SUBSEQUENT PLAN YEARS. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections as the Benefits Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Benefits Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

3.4 WITHHOLDING OF ANNUAL DEFERRAL AMOUNTS. For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Annual Salary to the extent the Annual Deferral Amount is denominated as a percentage of Base Annual Salary. The Annual Bonus portion of the Annual Deferral Amount shall be withheld at the time the Annual Bonus and/or LTIP Bonus are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 ANNUAL 401(k) RESTORATION MATCHING AMOUNT. For each Plan Year during which a Participant participates in the Sponsor's 401(k) Plan and the Sponsor makes a matching contribution to such 401(k) Plan, the Sponsor shall credit a Participant's Annual 401(k) Restoration Matching Account under this Plan with an amount equal to the difference between (i) the amount the Sponsor contributed to the 401(k) Plan on behalf of such Participant during the Plan Year, and (ii) the amount that the Sponsor would have contributed to the 401(k) Plan on behalf of such Participant during such plan year had any deferrals of Base Annual Salary under this Plan been considered compensation under the 401(k) Plan, subject to the compensation limit under Section 401(a)(17) of the Code. The amount credited as a Participant's Annual 401(k) Restoration Matching Amount for any Plan Year under this Section 3.5 shall be credited to the Participant's 401(k) Restoration Matching Account on a date or dates to be determined by the Benefits Committee in its sole discretion.

3.6 VESTING. A Participant shall at all times be 100% vested in his or her Deferral Account and 401(k) Restoration Matching Account.

3.7 CREDITING/DEBITING OF ACCOUNT BALANCES. In accordance with, and subject to, the rules and procedures that are established from time to time by the Benefits Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

(a) MEASUREMENT FUNDS. The Participant may elect one or more of the measurement funds (the "Measurement Funds"), based on certain mutual funds or other investment indices, for the purpose of crediting or debiting additional amounts to his or her Account Balance. At the beginning of each Plan Year, the Benefits Committee shall provide the Participant

with a list of Measurement Funds available. As necessary, the Benefits Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund.

(b) ELECTION OF MEASUREMENT FUNDS. A Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.7(a) above) to be used to determine the amounts to be credited or debited to his or her Account Balance. The Participant may (but is not required to) subsequently elect at any time, by submitting an Election Form (or other form of communication) to the Benefits Committee that is accepted by the Benefits Committee, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If, in accordance with the previous sentence, an election is on any business day prior to 4:00 p.m. Eastern Standard Time, it shall be effective as of the day on which such election is made and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with this Section 3.7(b). If such election is made on any business day after 4:00 p.m. Eastern Standard Time or on any non-business day, it shall be effective as of the first business day following the day on which such election is made and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with this Section 3.7(b).

(c) PROPORTIONATE ALLOCATION. In making any election described in Section 3.7(b) above, the Participant shall specify on the Election Form (or such other form of communication acceptable to the Committee), in increments of one percent (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(d) CREDITING OR DEBITING METHOD. The performance of each elected Measurement Fund (either positive or negative) will be determined by the Benefits Committee, in its reasonable discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis, if possible, based on the performance of each Measurement Fund selected by the Participant, SUCH PERFORMANCE BEING DETERMINED BY THE BENEFITS COMMITTEE IN ITS SOLE DISCRETION.

(e) NO ACTUAL INVESTMENT. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance SHALL NOT be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Sponsor or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest in any of the investments on which the Measurement Funds are based, no Participant shall have any

rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Sponsor or the Trust; the Participant shall at all times remain an unsecured creditor of the Sponsor.

3.8 FICA AND OTHER TAXES3.

(a) ANNUAL DEFERRAL AMOUNTS. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Sponsor shall withhold from that portion of the Participant's Base Annual Salary, Annual Bonus and/or LTIP Bonus that is not being deferred, in a manner determined by the Sponsor, the

Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Benefits Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.8.

(b) 401(k) RESTORATION MATCHING ACCOUNT. When the Sponsor credits an Annual 401(k) Restoration Matching Amount to a Participant's 401(k) Restoration Matching Account, the Sponsor shall withhold from the Participant's Base Annual Salary, Annual Bonus and/or LTIP Bonus, as applicable, that is not deferred, in a manner determined by the Sponsor, the Participant's share of FICA and other employment taxes. If necessary, the Benefits Committee may reduce the Participant's Annual 401(k) Restoration Matching Amount in order to comply with this Section 3.8.

(c) DISTRIBUTIONS. The Sponsor, or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Sponsor, or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Sponsor and the trustee of the Trust.

ARTICLE 4
SHORT-TERM PAYOUT; WITHDRAWAL ELECTION

4.1 SHORT-TERM PAYOUT. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to all or a portion of such Annual Deferral Amount. The Short-Term Payout shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amount the Participant elected to have distributed as a Short-Term Payout plus amounts credited or debited in the manner provided in Section 3.7 above on that amount, calculated as of the close of business on or around the date on which the Short-Term Payout becomes payable, as determined by the Benefits Committee in its sole discretion. Subject to the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a fifteen (15) day period commencing immediately after the first day of any Plan Year designated by the Participant. The Plan Year designated by the Participant must be at least five Plan Years after the end of the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if a five year Short-Term Payout is elected for Annual Deferral Amounts that are deferred in the Plan

Year commencing January 1, 2002, the five year Short-Term Payout would become payable during a fifteen (15) day period commencing January 1, 2008.

4.2 OTHER BENEFITS TAKE PRECEDENCE OVER SHORT-TERM. Should an event occur that triggers a benefit under Article 5, 6, or 7, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 WITHDRAWAL ELECTION. A Participant may elect, at any time, to withdraw all or any portion of his or her Account Balance. For purposes of this Section 4.3, the value of a Participant's Account Balance shall be calculated as of the close of business on or around the date the Participant's benefit distribution is processed, as determined by the Benefits Committee, in its sole discretion, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as the "Withdrawal Amount"). This election can be made at any time, before or after Retirement, death or Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. The Participant (or his or her Beneficiary) shall make this election by giving the Benefits Committee advance written notice of the election in a form determined from time to time by the Benefits Committee. The Participant (or his or her Beneficiary) shall be paid the Withdrawal Amount within fifteen (15) days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall be suspended for the remainder of the Plan Year in which the withdrawal is elected and for one (1) full Plan Year thereafter.

ARTICLE 5
RETIREMENT BENEFIT

5.1 RETIREMENT BENEFIT. A Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance calculated as of the close of business on or around the date the Participant's benefit distribution is processed, as determined by the Benefits Committee in its sole discretion.

5.2 PAYMENT OF RETIREMENT BENEFIT. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of up to 15 years. The Participant may change his or her election to an allowable alternative payout period by submitting a new Election Form to the Benefits Committee, provided that any such Election Form is submitted to and accepted by the Benefits Committee in its sole discretion at least thirteen (13) months prior to the Participant's Retirement. The Election Form most recently accepted by the Benefits Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, or if the Participant's Account Balance on the date of the Participant's Retirement is less than $25,000, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than fifteen (15) days after the last day of the Plan Year in which the Participant Retires.

5.3 DEATH PRIOR TO COMPLETION OF RETIREMENT BENEFIT. If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's Beneficiary shall receive a lump

sum payment that is equal to the Participant's unpaid remaining Account Balance calculated as of the close of business on or around the date the benefit distribution is processed, as determined by the Benefits Committee in its sole discretion. The lump sum payment shall be made no later than fifteen (15) days after the Benefits Committee is provided with proof that is satisfactory to the Benefits Committee of the Participant's death.

ARTICLE 6
PRE-RETIREMENT SURVIVOR BENEFIT

6.1 PRE-RETIREMENT SURVIVOR BENEFIT. If the Participant dies before he or she Retires or experiences a Termination of Employment, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's Account Balance calculated as of the close of business on or around the date the benefit distribution is processed, as determined by the Benefits Committee in its sole discretion.

6.2 PAYMENT OF PRE-RETIREMENT SURVIVOR BENEFIT. The Pre-Retirement Survivor Benefit shall be paid to the Participant's Beneficiary in a lump sum payment no later than fifteen (15) days after the Benefits Committee is provided with proof that is satisfactory to the Benefits Committee of the Participant's death.

ARTICLE 7
TERMINATION BENEFIT

7.1 TERMINATION BENEFIT. If a Participant experiences a Termination of Employment prior to his or her Retirement or death, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance calculated as of the close of business on or around the date the benefit distribution is processed, as determined by the Benefits Committee in its sole discretion.

7.2 PAYMENT OF TERMINATION BENEFIT. The Participant shall receive his or her Termination Benefit in a lump sum payment no later than fifteen (15) days after the last day of the Plan Year in which the Participant experiences the Termination of Employment.

ARTICLE 8

BENEFICIARY DESIGNATION

8.1 BENEFICIARY. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of the Sponsor in which the Participant participates.

8.2 BENEFICIARY DESIGNATION; CHANGE; SPOUSAL CONSENT. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the

Benefits Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Benefits Committee's rules and procedures, as in effect from time to time. If the Participant resides in a community property state and names someone other than his or her spouse as a Beneficiary, a spousal consent, in the form designated by the Benefits Committee, must be signed by that Participant's spouse and returned to the Benefits Committee. Upon the acceptance by the Benefits Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Benefits Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Benefits Committee prior to his or her death.

8.3 ACKNOWLEDGMENT. No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Benefits Committee or its designated agent.

8.4 NO BENEFICIARY DESIGNATION. If a Participant fails to designate a Beneficiary as provided in Sections 8.1, 8.2 and 8.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

8.5 DOUBT AS TO BENEFICIARY. If the Benefits Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Benefits Committee shall have the right, exercisable in its discretion, to cause the Sponsor to withhold such payments until this matter is resolved to the Benefits Committee's satisfaction.

8.6 DISCHARGE OF OBLIGATIONS. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge the Sponsor and the Benefits Committee from all further obligations under this Plan with respect to the Participant, and that Participant's participation in the Plan shall terminate upon such full payment of benefits.

ARTICLE 9
LEAVE OF ABSENCE

9.1 PAID LEAVE OF ABSENCE. If a Participant is authorized by the Sponsor for any reason to take a paid leave of absence from the employment of the Sponsor, the Participant shall continue to be considered employed by the Sponsor and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.3.

9.2 UNPAID LEAVE OF ABSENCE. If a Participant is authorized by the Sponsor for any reason to take an unpaid leave of absence from the employment of the Sponsor, the Participant shall continue to be considered employed by the Sponsor and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. In the event of a deferral of a fixed dollar amount from Base

Annual Salary, the Committee may make appropriate adjustments to reflect the period of unpaid leave. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 10
TERMINATION, AMENDMENT OR MODIFICATION

10.1 TERMINATION. Although the Sponsor anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Sponsor will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, the Sponsor reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees. Upon the termination of the Plan with respect to the Sponsor, the affected Participants' participation in the Plan shall terminate and their Account Balances shall be paid in a lump sum notwithstanding any elections made by the Participants. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Sponsor shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum.

10.2 AMENDMENT. The Sponsor may, at any time, amend or modify the Plan in whole or in part; provided, however, that no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Sponsor shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years.

10.3 DELEGATION TO BENEFITS COMMITTEE. The Sponsor has delegated its rights to act under Sections 10.1 and 10.2 above to the Benefits Committee and the Benefits Committee shall have the full power to take action under Sections 10.1 and 10.2.

10.4 EFFECT OF PAYMENT. The full payment of the applicable benefit under Articles 4, 5, 6, or 7 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's participation in the Plan shall terminate.

ARTICLE 11
ADMINISTRATION

11.1 BENEFITS COMMITTEE DUTIES. Except as otherwise provided in this Article 11, this Plan shall be administered by the Benefits Committee of the Sponsor. The Benefits Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and

regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Benefits Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Benefits Committee shall be entitled to rely on information furnished by a Participant or the Sponsor.

11.2 AGENTS. In the administration of this Plan, the Benefits Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to the Sponsor.

11.3 BINDING EFFECT OF DECISIONS. The decision or action of the Benefits Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

11.4 INDEMNITY OF BENEFITS COMMITTEE. The Sponsor shall indemnify and hold harmless the members of the Benefits Committee and any Employee to whom the duties of the Benefits Committee may be delegated against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Benefits Committee, any of its members, or any such Employee.

11.5 SPONSOR INFORMATION. To enable the Benefits Committee to perform its functions, the Sponsor shall supply full and timely information to the Benefits Committee, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, death or Termination of Employment of its Participants, and such other pertinent information as the Benefits Committee may reasonably require.

ARTICLE 12
OTHER BENEFITS AND AGREEMENTS

12.1 COORDINATION WITH OTHER BENEFITS. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Sponsor. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 13
CLAIMS PROCEDURES

13.1 PRESENTATION OF CLAIM. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Benefits Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the

Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

13.2 NOTIFICATION OF DECISION. The Benefits Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Benefits Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

(i) the specific reason(s) for the denial of the claim, or any part of it;

(ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

(iv) an explanation of the claim review procedure set forth in Section 13.3 below.

13.3 REVIEW OF A DENIED CLAIM. Within sixty (60) days after receiving a notice from the Benefits Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Benefits Committee a written request for a review of the denial of the claim. Thereafter, but not later than thirty (30) days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

(a) may review pertinent documents;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Benefits Committee, in its sole discretion, may grant.

13.4 DECISION ON REVIEW. The Benefits Committee shall render its decision on review promptly, and not later than sixty (60) days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Benefits Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based; and

(c) such other matters as the Benefits Committee deems relevant.

13.5 LEGAL ACTION. A Claimant's compliance with the foregoing provisions of this Article 13 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 14
TRUST

14.1 ESTABLISHMENT OF THE TRUST. In order to provide assets from which to fulfill the obligations of the Participants and their beneficiaries under the Plan, the Sponsor may establish a Trust by a trust agreement with a third party, the trustee, to which the Sponsor may, in its discretion, contribute cash or other property, including securities issued by the Sponsor, to provide for the benefit payments under the Plan.

14.2 INTERRELATIONSHIP OF THE PLAN AND THE TRUST. The provisions of the Plan shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Sponsor, Participants and the creditors of the Sponsor to the assets transferred to the Trust. The Sponsor shall at all times remain liable to carry out its obligations under the Plan.

14.3 DISTRIBUTIONS FROM THE TRUST. The Sponsor's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Sponsor's obligations under this Plan.

ARTICLE 15
MISCELLANEOUS

15.1 STATUS OF PLAN. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

15.2 UNSECURED GENERAL CREDITOR. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Sponsor. For purposes of the payment of benefits under this Plan, any and all of the Sponsor's assets shall be, and remain, the general, unpledged unrestricted assets of the Sponsor. The Sponsor's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

15.3 SPONSOR'S LIABILITY. The Sponsor's liability for the payment of benefits shall be defined only by the Plan. The Sponsor shall have no obligation to a Participant under the Plan except as expressly provided in the Plan.

15.4 NONASSIGNABILITY. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate,

alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

15.5 NOT A CONTRACT OF EMPLOYMENT. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Sponsor and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Sponsor, as an Employee, or to interfere with the right of the Sponsor to discipline or discharge the Participant at any time.

15.6 FURNISHING INFORMATION. A Participant or his or her Beneficiary will cooperate with the Benefits Committee by furnishing any and all information requested by the Benefits Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Benefits Committee may deem necessary.

15.7 TERMS. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

15.8 CAPTIONS. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

15.9 GOVERNING LAW. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the Commonwealth of Massachusetts without regard to its conflicts of laws principles.

15.10 NOTICE. Any notice or filing required or permitted to be given to the Benefits Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Boston Properties Benefits Committee
c/o Boston Properties, Inc.
111 Huntington Avenue, Suite 300
Boston, MA 02199-7610

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

15.11 SUCCESSORS. The provisions of this Plan shall bind and inure to the benefit of the Sponsor and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

15.12 SPOUSE'S INTEREST. The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

15.13 VALIDITY. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

15.14 INCOMPETENT. If the Benefits Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Benefits Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Benefits Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

15.15 COURT ORDER. The Benefits Committee is authorized to make any payments directed by court order in any action in which the Plan or the Benefits Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan in connection with a property settlement or otherwise, the Benefits Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to that spouse or former spouse.

15.16 DISTRIBUTION IN THE EVENT OF TAXATION.

(a) IN GENERAL. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Benefits Committee for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld, the Sponsor shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted.

(b) TRUST. If the Trust terminates in accordance with its terms and benefits are distributed from the Trust to a Participant in accordance therewith, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

15.17 INSURANCE. The Sponsor, on its own behalf or on behalf of the trustee of the Trust, and, in its sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Sponsor or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Sponsor shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Sponsor has applied for insurance.

IN WITNESS WHEREOF, the Sponsor has caused this Plan document to be duly executed by a duly authorized officer of its general partner as of __________, 2002.

BOSTON PROPERTIES LIMITED PARTNERSHIP

By BOSTON PROPERTIES, INC.,
Its General Partner

By:

Title: