

BOSTON PROPERTIES INC
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

Commission File Number: 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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Delaware **04-2473675**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103

(Address of principal executive offices) (Zip Code)

(617) 236-3300

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common Stock, par value \$.01 per share
(Class)

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

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2012

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

	September 30, 2012	December 31, 2011
ASSETS		
Real estate, at cost	\$ 13,165,836	\$ 12,303,965
Construction in progress	937,475	818,685
Land held for future development	273,922	266,822
Less: accumulated depreciation	(2,843,167)	(2,642,986)
Total real estate	11,534,066	10,746,486
Cash and cash equivalents	1,223,215	1,823,208
Cash held in escrows	32,253	40,332
Investments in securities	11,792	9,548
Tenant and other receivables (net of allowance for doubtful accounts of \$1,381 and \$1,766, respectively)	45,039	79,838
Related party notes receivable	282,206	280,442
Interest receivable from related party notes receivable	102,122	89,854
Accrued rental income (net of allowance of \$2,771 and \$2,515, respectively)	579,553	522,675
Deferred charges, net	534,898	445,403
Prepaid expenses and other assets	132,109	75,458
Investments in unconsolidated joint ventures	664,690	669,722
Total assets	\$ 15,141,943	\$ 14,782,966
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	\$ 2,848,686	\$ 3,123,267
Unsecured senior notes (net of discount of \$10,783 and \$9,814, respectively)	4,639,217	3,865,186
Unsecured exchangeable senior notes (net of discount of \$2,012 and \$3,462, respectively)	1,162,955	1,715,685
Unsecured line of credit		
Accounts payable and accrued expenses	193,492	155,139
Dividends and distributions payable	93,461	91,901
Accrued interest payable	98,601	69,105
Other liabilities	309,004	293,515
Total liabilities	9,345,416	9,313,798
Commitments and contingencies		
Noncontrolling interest:		
Redeemable preferred units of the Operating Partnership	110,876	55,652
Equity:		
Stockholders' equity attributable to Boston Properties, Inc.:		
Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding		
Preferred stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding		
Common stock, \$.01 par value, 250,000,000 shares authorized, 150,935,137 and 148,186,511 issued and 150,856,237 and 148,107,611 outstanding at September 30, 2012 and December 31, 2011, respectively	1,509	1,481

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

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

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

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

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

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

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

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

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

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

(Unaudited and in thousands)

	Common Stock		Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Accumulated Other Comprehensive Noncontrolling		Total
	Shares	Amount				Loss	Interests	
Equity, December 31, 2011	148,108	\$ 1,481	\$ 4,936,457	\$ (53,080)	\$ (2,722)	\$ (16,138)	\$ 547,518	\$ 5,413,516
Conversion of operating partnership units to common stock	366	4	11,232				(11,236)	
Conversion of redeemable preferred units to common units							5,852	5,852
Allocated net income for the year				241,473			30,946	272,419
Dividends/distributions declared				(248,014)			(30,100)	(278,114)
Sale of common stock, net of offering costs	2,348	24	247,162					247,186
Shares issued pursuant to stock purchase plan	8		781					781
Net activity from stock option and incentive plan	26		4,473				19,821	24,294
Distributions to noncontrolling interests in property partnerships							(2,250)	(2,250)
Amortization of interest rate contracts						1,759	208	1,967
Reallocation of noncontrolling interest			(5,536)				5,536	
Equity, September 30, 2012	150,856	\$ 1,509	\$ 5,194,569	\$ (59,621)	\$ (2,722)	\$ (14,379)	\$ 566,295	\$ 5,685,651
Equity, December 31, 2010	140,199	\$ 1,402	\$ 4,417,162	\$ (24,763)	\$ (2,722)	\$ (18,436)	\$ 591,550	\$ 4,964,193
Conversion of operating partnership units to common stock	2,443	24	71,157				(71,181)	
Allocated net income for the year				171,359			24,527	195,886
Dividends/distributions declared				(219,537)			(29,120)	(248,657)
Sale of common stock, net of offering costs	4,660	47	438,990					439,037
Shares issued pursuant to stock purchase plan	7		620					620
Net activity from stock option and incentive plan	318	3	15,266				17,367	32,636
Distributions to noncontrolling interests in property partnerships							(1,500)	(1,500)
Amortization of interest rate contracts						1,719	227	1,946
Reallocation of noncontrolling interest			(26,755)				26,755	
Equity, September 30, 2011	147,627	\$ 1,476	\$ 4,916,440	\$ (72,941)	\$ (2,722)	\$ (16,717)	\$ 558,625	\$ 5,384,161

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

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

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

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

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

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

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

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. Organization**

Boston Properties, Inc. (the Company), a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT). The Company is the sole general partner of Boston Properties Limited Partnership (the Operating Partnership) and at September 30, 2012 owned an approximate 88.6% (88.0% at September 30, 2011) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as common units of partnership interest (also referred to as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units). In addition, in February 2008, February 2011 and February 2012, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as 2008 OPP Units, 2011 OPP Units and 2012 OPP Units, respectively, and collectively as OPP Units). Because the rights, preferences and privileges of OPP Units differ from other LTIP Units granted to employees as part of the annual compensation process, unless specifically noted otherwise, all references to LTIP Units exclude OPP Units. On February 5, 2011, the measurement period for the Company's 2008 OPP Unit awards expired and the Company's total return to shareholders was not sufficient for employees to earn and therefore become eligible to vest in any of the 2008 OPP Unit awards. Accordingly, all 2008 OPP Unit awards were automatically forfeited (See Notes 9 and 12).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership is obligated to redeem such OP Unit for cash equal to the value of a share of common stock of the Company (Common Stock) at such time. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 12).

At September 30, 2012, there were two series of Preferred Units outstanding (i.e., Series Two Preferred Units and Series Four Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Each Series Two Preferred Unit may also be converted into approximately 1.312336 OP Units or redeemed for \$50.00 of cash at the election of the holder thereof or the Operating Partnership in accordance with the terms and conditions set forth in the applicable amendment to the partnership agreement. The Series Four Preferred Units are not convertible into or exchangeable for any common equity of the Operating Partnership or the Company, have a per unit liquidation preference of \$50.00 and are entitled to receive quarterly distributions of \$0.25 per unit (or an annual rate of 2.00%) (See Note 9).

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

Properties

At September 30, 2012, the Company owned or had interests in a portfolio of 152 commercial real estate properties (the Properties) aggregating approximately 43.4 million net rentable square feet, including eight

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

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

one hotel;

three retail properties; and

three residential properties (including one property under construction).

The Company owns or controls undeveloped land parcels totaling approximately 510.7 acres. In addition, the Company has a noncontrolling interest in the Boston Properties Office Value-Added Fund, L.P. (the Value-Added Fund), which is a strategic partnership with two institutional investors through which the Company has pursued the acquisition of value-added investments in assets within its existing markets. The Company's investments through the Value-Added Fund are not included in its portfolio information or any other portfolio level statistics. At September 30, 2012, the Value-Added Fund had investments in 23 buildings comprised of two office complexes in Mountain View, California.

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

2. Basis of Presentation and Summary of Significant Accounting Policies

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

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's Annual Report in the Company's Form 10-K for its fiscal year ended December 31, 2011. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

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

Because the Company's valuations of its financial instruments are based on these types of estimates, the actual fair values of its financial instruments may differ materially if the Company's estimates do not prove to be accurate. The following table presents the aggregate carrying value of the Company's indebtedness and the Company's corresponding estimate of fair value as of September 30, 2012 and December 31, 2011 (in thousands):

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

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

Out-of-Period Adjustment

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

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

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

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

Net assets acquired

\$ 6,650

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

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

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

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

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

The accompanying pro forma information for the nine months ended September 30, 2012 and 2011 is presented as if the operating property acquisitions of (1) 453 Ravendale Drive on March 1, 2012 and (2) 100 Federal Street on March 13, 2012, had occurred on January 1, 2011. This pro forma information is based upon the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had the above occurred, nor do they purport to predict the results of operations of future periods.

Pro Forma (in thousands, except per share data)	Nine months ended September 30,	
	2012	2011
Total revenue	\$ 1,403,155	\$ 1,348,017
Income from continuing operations	\$ 221,617	\$ 205,720
Net income attributable to Boston Properties, Inc.	\$ 243,553	\$ 177,788
Basic earnings per share:		
Net income per share attributable to Boston Properties, Inc.	\$ 1.63	\$ 1.23
Diluted earnings per share:		
Net income per share attributable to Boston Properties, Inc.	\$ 1.62	\$ 1.22

Table of Contents**Developments**

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

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

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

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

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

Dispositions

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

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

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

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

4. Investments in Unconsolidated Joint Ventures

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

Entity	Properties	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(1)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3%(2)
RBP Joint Venture LLC	Eighth Avenue and 46th Street	50.0%(3)
Boston Properties Office Value-Added Fund, L.P.	300 Billerica Road and Mountain View Research and Technology Parks	39.5%(1)(4)
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(5)
767 Venture, LLC	The General Motors Building	60.0%
2 GCT Venture LLC	Two Grand Central Tower	60.0%(6)
540 Madison Venture LLC	540 Madison Avenue	60.0%
125 West 55 th Street Venture LLC	125 West 55 th Street	60.0%
500 North Capitol LLC	500 North Capitol Street, NW	30.0%(7)

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- (1) The Company's economic ownership can increase based on the achievement of certain return thresholds.
- (2) The Company's wholly-owned entity that owns the office component of the project also owns a 33.3% interest in the entity owning the land and infrastructure of the project.

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- (3) This property is not in operation and consists of assembled land.
- (4) The Company has a 39.5% interest in the Mountain View Research and Technology Park properties. 300 Billerica Road, in which the Company had a 25.0% interest, was sold on September 27, 2012. As of September 30, 2012, the Company's investment in the Value-Added Fund included undistributed proceeds from the sale of 300 Billerica Road.
- (5) Comprised of one building, one building under construction and two undeveloped land parcels.
- (6) The property was sold on October 25, 2011. As of September 30, 2012, the investment is comprised of working capital and a portion of undistributed sale proceeds.
- (7) This property is under construction.
- Certain of the Company's joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures at an agreed upon fair value. Under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

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

	September 30, 2012	December 31, 2011
	(in thousands)	
ASSETS		
Real estate and development in process, net	\$ 4,504,954	\$ 4,542,594
Other assets	657,141	668,113
Total assets	\$ 5,162,095	\$ 5,210,707
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	\$ 3,026,898	\$ 2,988,894
Other liabilities	791,110	854,257
Members /Partners equity	1,344,087	1,367,556
Total liabilities and members /partners equity	\$ 5,162,095	\$ 5,210,707
Company's share of equity	\$ 793,166	\$ 799,479
Basis differentials(1)	(128,476)	(129,757)
Carrying value of the Company's investments in unconsolidated joint ventures	\$ 664,690	\$ 669,722

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

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

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

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

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

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

5. Mortgage Notes Payable

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

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

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

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

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

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

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

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

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
12 Year Unsecured Senior Notes	5.625%	5.693%	\$ 300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
10 Year Unsecured Senior Notes	5.875%	5.967%	700,000	October 15, 2019
10 Year Unsecured Senior Notes	5.625%	5.708%	700,000	November 15, 2020
10 Year Unsecured Senior Notes	4.125%	4.289%	850,000	May 15, 2021
7 Year Unsecured Senior Notes	3.700%	3.853%	850,000	November 15, 2018
11 Year Unsecured Senior Notes	3.850%	3.954%	1,000,000	February 1, 2023
Total principal			4,650,000	
Net unamortized discount			(10,783)	
Total			\$ 4,639,217	

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

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

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

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

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

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

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

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

- (1) Yield on issuance date including the effects of discounts on the notes but excluding the effects of the adjustment for the equity component allocation.
- (2) The initial exchange rate is 8.5051 shares per \$1,000 principal amount of the notes (or an initial exchange price of approximately \$117.58 per share of Boston Properties, Inc. s common stock). In addition, the Company entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions were intended to increase the effective exchange price to the Company of the notes from \$117.58 to approximately \$137.17 per share (subject to adjustment), representing an overall effective premium of approximately 40% over the closing price on August 13, 2008 of \$97.98 per share of Boston Properties, Inc. s common stock. The net cost of the capped call transactions was approximately \$44.4 million. As of September 30, 2012, the effective exchange price was \$134.77 per share.
- (3) In connection with the special distribution of \$5.98 per share of Boston Properties, Inc. s common stock declared on December 17, 2007, the exchange rate was adjusted from 9.3900 to 10.0066 shares per \$1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately \$99.93 per share of Boston Properties, Inc. s common stock.
- (4) Holders may require the Operating Partnership to repurchase the notes for cash on May 18, 2013 and on May 15 of 2016, 2021, 2026 and 2031 and at any time prior to their maturity upon a fundamental change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurchase date.

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

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

8. Commitments and Contingencies

General

In the normal course of business, the Company guarantees its performance of services or indemnifies third parties against its negligence.

The Company has letter of credit and performance obligations of approximately \$12.9 million related to lender and development requirements.

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

In connection with the assumption of the General Motors Building's secured loan by the Company's unconsolidated joint venture, 767 Venture, LLC, the Company guaranteed the unconsolidated joint venture's obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of September 30, 2012, the maximum funding obligation under the guarantee was approximately \$9.8 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.

In connection with the mortgage financing collateralized by the Company's John Hancock Tower property located in Boston, Massachusetts, the Company has agreed to guarantee approximately \$0.8 million related to its obligation to provide funds for certain tenant re-leasing costs. The mortgage financing matures on January 6, 2017.

From time to time, the Company (or the applicable joint venture) has also agreed to guarantee portions of the principal, interest or other amounts in connection with other unconsolidated joint venture borrowings. In addition to the financial guarantees referenced above, the Company has agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of its unconsolidated joint venture loans.

Insurance

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, "TRIA") was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA"). Currently, the Company's property insurance program per occurrence limits are \$1.0 billion for its portfolio insurance program, including coverage for acts of terrorism certified under TRIA other than nuclear, biological, chemical or radiological terrorism ("Terrorism Coverage"). The Company also carries \$250 million of Terrorism Coverage for 601 Lexington Avenue, New York, New York ("601 Lexington Avenue") in excess of the \$1.0 billion of coverage in the Company's property insurance program which is provided by IXP, LLC ("IXP") as a direct insurer. Certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York ("767 Fifth Avenue"), are currently insured in separate insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are \$1.625 billion, including

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Terrorism Coverage, with \$1.375 billion of Terrorism Coverage in excess of \$250 million being provided by NYXP, LLC (NYXP), as a direct insurer. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage for acts of terrorism certified under TRIA (NBCR Coverage), which is provided by IXP as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding the properties owned by the Company's Value-Added Fund and certain other properties owned in joint ventures with third parties or which the Company manages. The per occurrence limit for NBCR Coverage is \$1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the additional Terrorism Coverage provided by IXP for 601 Lexington Avenue, the NBCR Coverage provided by IXP and the Terrorism Coverage provided by NYXP are backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is \$100.0 million and the coinsurance is 15%. Under TRIPRA, if the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. The Company may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in its portfolio or for any other reason. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain terrorism insurance in amounts and on terms that are commercially reasonable.

The Company also currently carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that the Company believes are commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, the Company currently carries earthquake insurance which covers its San Francisco region with a \$120 million per occurrence limit and a \$120 million annual aggregate limit, \$20 million of which is provided by IXP, as a direct insurer. In addition, the builders risk policy maintained for the development of 680 Folsom Street in San Francisco includes a \$20 million per occurrence and annual aggregate limit of earthquake coverage. The amount of the Company's earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact the Company's ability to finance properties subject to earthquake risk. The Company may discontinue earthquake insurance on some or all of its properties in the future if the premiums exceed the Company's estimation of the value of the coverage.

IXP, a captive insurance company which is a wholly-owned subsidiary of the Company, acts as a direct insurer with respect to a portion of the Company's earthquake insurance coverage for its Greater San Francisco properties, the additional Terrorism Coverage for 601 Lexington Avenue and the Company's NBCR Coverage. The additional Terrorism Coverage provided by IXP for 601 Lexington Avenue only applies to losses which exceed the program trigger under TRIA. NYXP, a captive insurance company which is a wholly-owned subsidiary of the Company, acts as a direct insurer with respect to a portion of the Company's Terrorism Coverage for 767 Fifth Avenue. Currently, NYXP only insures losses which exceed the program trigger under TRIA and NYXP reinsures with a third-party insurance company any coinsurance payable under TRIA. Insofar as the Company owns IXP and NYXP, it is responsible for their liquidity and capital resources, and the accounts of IXP and NYXP are part of the Company's consolidated financial statements. In particular, if a loss occurs which is covered by the Company's NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. IXP and NYXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out and their insurance policies are maintained after the payout by the Federal Government. If the Company experiences a loss and IXP or NYXP are required to pay under their insurance policies, the Company would ultimately record the loss to the extent of the required payment. Therefore, insurance coverage provided by IXP and NYXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance. In addition, the Operating Partnership has issued a guarantee to cover liabilities of IXP in the amount of \$20.0 million.

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

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

9. Noncontrolling Interests

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

Noncontrolling Interest Redeemable Preferred Units of the Operating Partnership

The Preferred Units at September 30, 2012 consisted of 995,997 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) 6.00% per annum on a liquidation preference of \$50.00 per unit, and are convertible into OP Units at a rate of \$38.10 per Preferred Unit (1.312336 OP Units for each Preferred Unit). The holders of Series Two Preferred Units have the right to require the Operating Partnership to redeem their units for cash at the redemption price of \$50.00 per unit on May 14, 2013 and May 12, 2014. The maximum number of units that may be required to be redeemed from all holders on each of these dates is 1,007,662, which is one-sixth of the number of Series Two Preferred Units that were originally issued. The holders also had the right to have their Series Two Preferred Units redeemed for cash on May 12, 2009, May 12, 2010, May 12, 2011 and May 14, 2012, although no holder exercised such right. The Company also has the right, subject to certain conditions, to redeem Series Two Preferred Units for cash or to convert into OP Units any Series Two Preferred Units that are not redeemed when they are eligible for redemption.

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

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

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

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

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

Noncontrolling Interest Common Units of the Operating Partnership

During the nine months ended September 30, 2012, 365,688 OP Units were presented by the holders for redemption (including 153,605 OP Units issued upon conversion of Series Two Preferred Units and 149,477 OP Units issued upon conversion of LTIP Units) and were redeemed by the Company in exchange for an equal number of shares of Common Stock.

At September 30, 2012, the Company had outstanding 400,000 2011 OPP Units and 400,000 2012 OPP Units (See Note 12). Prior to the measurement date (January 31, 2014 for 2011 OPP Units and February 6, 2015 for 2012 OPP Units), holders of OPP Units will be entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special distributions. After the measurement date, the number of OPP Units, both vested and unvested, that OPP award recipients have earned, if any, based on the establishment of an outperformance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit.

On January 27, 2012, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.55 per unit, and a distribution on the 2011 OPP Units in the amount of \$0.055 per unit, to holders of record as of the close of business on December 31, 2011. On April 30, 2012, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of \$0.55 per unit, and a distribution on the 2011 OPP Units and 2012 OPP Units in the amount of \$0.055 per unit, to holders of record as of the close of business on March 30, 2012. On July 31, 2012, the Operating Partnership paid a distribution on the OP Units and LTIP Units

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

The Series Two Preferred Units may be converted into OP Units at the election of the holder thereof at any time. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company. The Company may, in its sole discretion, elect to assume and satisfy the redemption obligation by paying either cash or issuing one share of Common Stock. The value of the OP Units (not owned by the Company and including LTIP Units assuming that all conditions had been met for the conversion thereof) and Series Two Preferred Units (on an as converted basis) had all of such units been redeemed at September 30, 2012 was approximately \$2.0 billion and \$144.6 million, respectively, based on the closing price of the Company's common stock of \$110.61 per share on September 30, 2012.

Noncontrolling Interest Property Partnerships

The noncontrolling interests in property partnerships consist of the outside equity interests in ventures that are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in these ventures that are not owned by the Company, totaling approximately \$(1.9) million at September 30, 2012 and approximately \$(1.1) million at December 31, 2011, are included in Noncontrolling Interests Property Partnerships on the accompanying Consolidated Balance Sheets.

10. Stockholders Equity

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

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

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

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

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

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The following table provides a reconciliation of both the net income attributable to Boston Properties, Inc. and the number of common shares used in the computation of basic earnings per share (EPS), which is calculated by dividing net income attributable to Boston Properties, Inc. by the weighted-average number of common shares outstanding during the period. The terms of the Series Two Preferred Units enable the holders to obtain OP Units of the Operating Partnership, as well as Common Stock of the Company. As a result, the Series Two Preferred Units are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. As a result, unvested restricted common stock of the Company, LTIP Units and OPP Units are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. Because the OPP Units require the Company to outperform absolute and relative return thresholds, unless such thresholds have been met by the end of the applicable reporting period, the Company excludes such units from the diluted EPS calculation. Other potentially dilutive common shares, including stock options, restricted stock and other securities of the Operating Partnership that are exchangeable for the Company's Common Stock, and the related impact on earnings, are considered when calculating diluted EPS.

	For the Three Months Ended September 30, 2012		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 57,769	150,801	\$ 0.38
Discontinued operations attributable to Boston Properties, Inc.			
Net income attributable to Boston Properties, Inc.	\$ 57,769	150,801	\$ 0.38
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		1,182	
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 57,769	151,983	\$ 0.38
	For the Three Months Ended September 30, 2011		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 70,524	147,006	\$ 0.48
Discontinued operations attributable to Boston Properties, Inc.	18		
Net income attributable to Boston Properties, Inc.	\$ 70,542	147,006	\$ 0.48
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		616	
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 70,542	147,622	\$ 0.48

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	For the Nine Months Ended September 30, 2012		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 191,997	149,823	\$ 1.28
Discontinued operations attributable to Boston Properties, Inc.	49,476		0.33
Net income attributable to Boston Properties, Inc.	\$ 241,473	149,823	\$ 1.61
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		655	(0.01)
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 241,473	150,478	\$ 1.60
	For the Nine Months Ended September 30, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income from continuing operations attributable to Boston Properties, Inc.	\$ 171,411	145,006	\$ 1.18
Discontinued operations attributable to Boston Properties, Inc.	(52)		
Net income attributable to Boston Properties, Inc.	\$ 171,359	145,006	\$ 1.18
Effect of Dilutive Securities:			
Stock Based Compensation and Exchangeable Senior Notes		619	
Diluted Earnings:			
Net income attributable to Boston Properties, Inc.	\$ 171,359	145,625	\$ 1.18

12. Stock Option and Incentive Plan

On January 25, 2012, the Compensation Committee of the Board of Directors of the Company approved outperformance awards under the Company's 1997 Stock Option and Incentive Plan (the "1997 Plan") to certain officers of the Company. These awards (the "2012 OPP Awards") are part of a broad-based, long-term incentive compensation program designed to provide the Company's management team with the potential to earn equity awards subject to the Company outperforming and creating shareholder value in a pay-for-performance structure. 2012 OPP Awards utilize total return to shareholders ("TRS") over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2012 OPP Awards will share in an outperformance pool if the Company's TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 7, 2012 to February 6, 2015, based on the average closing price of a share of the Company's common stock of \$106.69 for the five trading days prior to and including February 7, 2012. The aggregate reward that recipients of all 2012 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of \$40.0 million.

The outperformance pool will consist of (i) two percent (2%) of the excess total return above a cumulative absolute TRS hurdle of 24% over the full three-year measurement period (equivalent to 8% per annum) (the "Absolute TRS Component") and (ii) two percent (2%) of the excess or deficient excess total return above or below a relative TRS hurdle equal to the total return of the SNL Equity REIT Index over the three-year measurement period (the "Relative TRS Component"). In the event that the Relative TRS Component is potentially positive

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because the Company's TRS is greater than the total return of the SNL Equity REIT Index, but the Company achieves a cumulative absolute TRS below 24% over the three-year measurement period (equivalent to 8% per annum), the actual contribution to the outperformance pool from the Relative TRS Component will be subject to a sliding scale factor as follows: (i) 100% of the potential Relative TRS Component will be earned if the Company's TRS is equal to or greater than a cumulative 24% over three years, (ii) 0% will be earned if the Company's TRS is 0% or less, and (iii) a percentage from 0% to 100% calculated by linear interpolation will be earned if the Company's cumulative TRS over three years is between 0% and 24%. For example, if the Company achieves a cumulative absolute TRS of 18% over the full three-year measurement period (equivalent to a 6% absolute annual TRS), the potential Relative TRS Component would be prorated by 75%. The potential Relative TRS Component before application of the sliding scale factor will be capped at \$40.0 million. In the event that the Relative TRS Component is negative because the Company's TRS is less than the total return of the SNL Equity REIT Index, any outperformance reward potentially earned under the Absolute TRS Component will be reduced dollar for dollar, provided that the potential Absolute TRS Component before reduction for any negative Relative TRS Component will be capped at \$40.0 million. The algebraic sum of the Absolute TRS Component and the Relative TRS Component determined as described above will never exceed \$40.0 million.

Each employee's 2012 OPP Award was designated as a specified percentage of the aggregate outperformance pool. Assuming the applicable absolute and/or relative TRS thresholds are achieved at the end of the measurement period, the algebraic sum of the Absolute TRS Component and the Relative TRS Component will be calculated and then allocated among the 2012 OPP Award recipients in accordance with each individual's percentage. If there is a change of control prior to February 6, 2015, the measurement period will end on the change of control date and both the Absolute TRS Component (using a prorated absolute TRS hurdle) and the Relative TRS Component will be calculated and, assuming the applicable absolute and/or relative TRS thresholds are achieved over the shorter measurement period, allocated among the 2012 OPP Award recipients as of that date.

Rewards earned with respect to 2012 OPP Awards (if any) will vest 25% on February 7, 2015, 25% on February 7, 2016 and 50% on February 7, 2017, based on continued employment. Vesting will be accelerated in the event of a change in control of the Company, termination of employment without cause, termination of employment by the award recipient for good reason, death, disability or retirement, although restrictions on transfer will continue to apply in certain of these situations. All determinations, interpretations and assumptions relating to the calculation of performance and vesting relating to 2012 OPP Awards will be made by the Compensation Committee. 2012 OPP Awards were issued in the form of LTIP Units prior to the determination of the outperformance pool, but will remain subject to forfeiture depending on the extent of rewards earned with respect to 2012 OPP Awards. The number of LTIP Units issued initially to recipients of the 2012 OPP Awards is an estimate of the maximum number of LTIP Units that they could earn, based on certain assumptions. The number of LTIP Units actually earned by each award recipient will be determined at the end of the performance measurement period by dividing his or her share of the outperformance pool by the average closing price of a REIT Share for the 15 trading days immediately preceding the measurement date. Total return for the Company and for the SNL Equity REIT Index over the three-year measurement period and other circumstances will determine how many LTIP Units are earned by each recipient; if they are fewer than the number issued initially, the balance will be forfeited as of the performance measurement date. Prior to the measurement date, LTIP units issued on account of 2012 OPP Awards are entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special distributions. After the measurement date, the number of LTIP Units, both vested and unvested, which 2012 OPP Award recipients have earned based on the establishment of an outperformance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit. LTIP Units are designed to qualify as profits interests in the Operating Partnership for federal income tax purposes. As a general matter, the profits interests characteristics of the LTIP Units mean that initially they will not be economically equivalent in value to an OP Unit. If and when events specified by applicable tax regulations occur, LTIP Units can over time increase in value up to the point where they are equivalent to OP Units on a one-for-one basis. After LTIP Units are fully vested, and to the extent the special tax rules applicable to profits interests have allowed them to become equivalent in value to OP Units, LTIP Units may be converted on a one-for-one basis into OP Units. OP Units in turn have a one-for-one relationship

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in value with Boston Properties, Inc. common stock, and are exchangeable on such one-for-one basis for cash or, at the election of the Company, Boston Properties, Inc. common stock.

The 2012 OPP Units were valued, in accordance with ASC 718 Compensation Stock Compensation, at an aggregate of approximately \$7.7 million utilizing a Monte Carlo simulation to estimate the probability of the performance vesting conditions being satisfied. The Monte Carlo simulation used a statistical formula underlying the Black-Scholes and binomial formulas and such simulation was run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, which is then discounted to the award date at a risk-free interest rate. The average of the values over all simulations is the expected value of the unit on the award date. Assumptions used in the valuations included (1) factors associated with the underlying performance of the Company's stock price and total shareholder return over the term of the performance awards including total stock return volatility and risk-free interest and (2) factors associated with the relative performance of the Company's stock price and total shareholder return when compared to the SNL Equity REIT Index. The valuation was performed in a risk-neutral framework, so no assumption was made with respect to an equity risk premium. The fair value of the 2012 OPP Units is based on the sum of: (1) the present value of the expected payoff to the OPP Award on the measurement date, if the TRS over the applicable measurement period exceeds performance hurdles of the Absolute and the Relative Components; and (2) the present value of the distributions payable on the 2012 OPP Units. The ultimate reward realized on account of the OPP Award by the holders of the 2012 OPP Units is contingent on the TRS achieved on the measurement date, both in absolute terms and relative to the TRS of the SNL Equity REIT Index. The per unit fair value of each 2012 OPP Unit was estimated on the date of grant using the following assumptions in the Monte Carlo valuation: expected price volatility for the Company and the SNL Equity REIT index of 31% and 30%, respectively; a risk free rate of 0.35%; and total dividend payments over the measurement period of \$7.28 per share.

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

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

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

13. Segment Information

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

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

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Net Operating Income is not a measure of operating results or cash flows from operating activities as measured by accounting principles generally accepted in the United States of America, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. All companies may not calculate Net Operating Income in the same manner. The Company considers Net Operating Income to be an appropriate supplemental measure to net income because it helps both investors and management to understand the core operations of the Company's properties.

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

For the three months ended September 30, 2012:

	Boston	New York	Princeton	San Francisco	Washington, DC	Total
Rental Revenue:						
Class A Office	\$ 161,479	\$ 120,270	\$ 15,234	\$ 54,137	\$ 87,119	\$ 438,239
Office/Technical	5,539			148	4,099	9,786
Residential	995				4,501	5,496
Hotel	9,359					9,359
Total	177,372	120,270	15,234	54,285	95,719	462,880
% of Grand Totals	38.32%	25.98%	3.29%	11.73%	20.68%	100.0%
Rental Expenses:						
Class A Office	65,261	41,088	7,185	21,684	28,116	163,334
Office/Technical	1,758			52	941	2,751
Residential	490				2,364	2,854
Hotel	6,886					6,886
Total	74,395	41,088	7,185	21,736	31,421	175,825
% of Grand Totals	42.31%	23.37%	4.09%	12.36%	17.87%	100.0%
Net operating income	\$ 102,977	\$ 79,182	\$ 8,049	\$ 32,549	\$ 64,298	\$ 287,055
% of Grand Totals	35.87%	27.59%	2.80%	11.34%	22.40%	100.0%

For the three months ended September 30, 2011:

	Boston	New York	Princeton	San Francisco	Washington, DC	Total
Rental Revenue:						
Class A Office	\$ 141,024	\$ 115,284	\$ 15,495	\$ 53,978	\$ 94,551	\$ 420,332
Office/Technical	6,460				4,235	10,695
Residential	284				2,169	2,453
Hotel	8,045					8,045
Total	155,813	115,284	15,495	53,978	100,955	441,525
% of Grand Totals	35.29%	26.11%	3.51%	12.23%	22.86%	100.0%
Rental Expenses:						
Class A Office	55,308	39,331	7,189	20,788	25,758	148,374
Office/Technical	1,876				1,108	2,984

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Residential	270				2,148	2,418
Hotel	6,032					6,032
Total	63,486	39,331	7,189	20,788	29,014	159,808
% of Grand Totals	39.73%	24.61%	4.50%	13.01%	18.15%	100.0%
Net operating income	\$ 92,327	\$ 75,953	\$ 8,306	\$ 33,190	\$ 71,941	\$ 281,717
% of Grand Totals	32.77%	26.96%	2.95%	11.78%	25.54%	100.0%

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For the nine months ended September 30, 2012:

	Boston	New York	Princeton	San Francisco	Washington, DC	Total
Rental Revenue:						
Class A Office	\$ 460,127	\$ 360,515	\$ 45,701	\$ 159,984	\$ 266,259	\$ 1,292,586
Office/Technical	16,882			344	12,245	29,471
Residential	2,891				12,122	15,013
Hotel	26,224					26,224
Total	506,124	360,515	45,701	160,328	290,626	1,363,294
% of Grand Totals	37.13%	26.44%	3.35%	11.76%	21.32%	100.0%
Rental Expenses:						
Class A Office	183,601	118,531	22,234	62,892	83,861	471,119
Office/Technical	4,910			114	2,952	7,976
Residential	1,247				6,896	8,143
Hotel	19,601					19,601
Total	209,359	118,531	22,234	63,006	93,709	506,839
% of Grand Totals	41.31%	23.38%	4.39%	12.43%	18.49%	100.0%
Net operating income	\$ 296,765	\$ 241,984	\$ 23,467	\$ 97,322	\$ 196,917	\$ 856,455
% of Grand Totals	34.65%	28.26%	2.74%	11.36%	22.99%	100.0%

For the nine months ended September 30, 2011:

	Boston	New York	Princeton	San Francisco	Washington, DC	Total
Rental Revenue:						
Class A Office	\$ 403,325	\$ 341,698	\$ 47,585	\$ 161,039	\$ 263,346	\$ 1,216,993
Office/Technical	19,057				12,177	31,234
Residential	284				2,745	3,029
Hotel	22,897					22,897
Total	445,563	341,698	47,585	161,039	278,268	1,274,153
% of Grand Totals	34.97%	26.82%	3.73%	12.64%	21.84%	100.0%
Rental Expenses:						
Class A Office	153,849	114,423	22,591	60,241	73,291	424,395
Office/Technical	5,522				3,242	8,764
Residential	270				2,871	3,141
Hotel	18,052					18,052
Total	177,693	114,423	22,591	60,241	79,404	454,352
% of Grand Totals	39.11%	25.18%	4.97%	13.26%	17.48%	100.0%
Net operating income	\$ 267,870	\$ 227,275	\$ 24,994	\$ 100,798	\$ 198,864	\$ 819,801

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% of Grand Totals	32.67%	27.72%	3.05%	12.30%	24.26%	100.0%
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The following is a reconciliation of Net Operating Income to net income attributable to Boston Properties, Inc.:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net Operating Income	\$ 287,055	\$ 281,717	\$ 856,455	\$ 819,801
Add:				
Development and management services income	8,024	8,178	25,734	24,699
Income from unconsolidated joint ventures	9,217	11,326	42,129	28,184
Interest and other income	4,001	1,252	8,029	4,179
Gains (losses) from investments in securities	587	(860)	1,202	(481)
Income (loss) from discontinued operations		20	884	(60)
Gain on sale of real estate from discontinued operations			36,877	
Gain on forgiveness of debt from discontinued operations			17,807	
Less:				
General and administrative expense	19,757	16,917	66,442	60,281
Transaction costs	1,140	474	3,252	1,907
Depreciation and amortization expense	111,360	108,674	331,943	327,526
Interest expense	105,030	95,117	308,168	288,225
Losses from early extinguishments of debt	5,494		4,453	
Noncontrolling interest in property partnerships	458	86	1,461	1,118
Noncontrolling interest redeemable preferred units of the Operating Partnership	874	832	2,440	2,497
Noncontrolling interest common units of the Operating Partnership	7,002	8,989	23,393	23,417
Noncontrolling interest in discontinued operations common units of the Operating Partnership		2	6,092	(8)
Net income attributable to Boston Properties, Inc.	\$ 57,769	\$ 70,542	\$ 241,473	\$ 171,359

14. Subsequent Events

On October 1, 2012, a joint venture in which the Company has a 30% interest partially placed in-service 500 North Capitol Street, NW, a Class A office redevelopment project with approximately 232,000 net rentable square feet located in Washington, DC.

On October 4, 2012, the Company completed the formation of a joint venture, which owns and operates Fountain Square located in Reston, Virginia, adjacent to the Company's other Reston properties. Fountain Square is an office and retail complex aggregating approximately 764,000 net rentable square feet, comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 242,000 net rentable square feet of retail space. The joint venture partner contributed the property valued at approximately \$385.0 million and related mortgage indebtedness totaling approximately \$211.3 million for a 50% interest in the joint venture. The Company contributed cash totaling approximately \$87.0 million for its 50% interest, which cash was distributed to the joint venture partner. The Company is consolidating this joint venture. The mortgage loan bears interest at fixed rate of 5.71% per annum and matures on October 11, 2016. Pursuant to the joint venture agreement (i) the Company has rights to acquire the partner's 50% interest and (ii) the partner has the right to cause the Company to acquire the partner's interest on January 4, 2016, in each case at a fixed price totaling approximately \$102.0 million in cash. The fixed price option rights expire on January 31, 2016.

On October 19, 2012, the Company formed a joint venture to pursue the acquisition of land in San Francisco, California which could support a 61-story, 1.4 million square foot office tower known as Transbay Tower. The purchase price for the land is approximately \$190.0 million. The Company has a 50% interest in the joint venture. There can be no assurance that the acquisition will be consummated on the terms currently contemplated or at all.

On October 29, 2012, the Company entered into an agreement to sell its 164 Lexington Road property for approximately \$3.2 million. 164 Lexington Road is an approximately 64,000 square foot net rentable Office/Technical property located in Billerica, Massachusetts. There can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

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On November 8, 2012, the Company declared a dividend of \$0.65 per share of common stock for the period from October 1, 2012 to December 31, 2012, payable on January 29, 2013 to shareholders of record as of the close of business on December 31, 2012.

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

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

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

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

the continuing impact of high unemployment and other macroeconomic trends, which is having and may continue to have a negative effect on the following, among other things:

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

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

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

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

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

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

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);

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

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

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

risks associated with actual or threatened terrorist attacks;

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

potential liability for uninsured losses and environmental contamination;

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

possible adverse changes in tax and environmental laws;

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

risks associated with possible state and local tax audits;

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

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

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

Overview

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

Our core strategy has always been to operate in supply-constrained markets with high barriers to entry and to focus on executing long-term leases with financially strong tenants. Historically, this combination has tended to reduce our exposure in down cycles and enhance revenues as

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market conditions improve. To be successful in the current leasing environment, we believe all aspects of the tenant-landlord relationship must be considered. In this regard, we believe that our understanding of tenants' short- and long-term utilization and space needs in the local markets, our relationships with local brokers, our reputation as a premier owner and operator of Class A

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office properties, our financial strength and our ability to maintain high building standards provide us with a competitive advantage in an increasingly fragmented office market. We expect tenants in our markets to continue to take advantage of the ability to upgrade to high-quality space like ours, particularly those who value our operational expertise and financial stability when making their leasing decisions.

Leasing velocity slowed during the third quarter in all of our markets with the exception of the Cambridge, Massachusetts submarket and our San Francisco region. Overall trends remain flat with leasing decisions based on lease expirations rather than business growth. With just 5.6% of the space in our portfolio expiring through 2013, we are well positioned should velocity trends fail to improve.

In the midtown Manhattan market, leasing activity in the third quarter was less than recent historical averages and the availability rate increased slightly. Activity in our portfolio reflected this as we signed leases for approximately 126,000 square feet during the quarter and our occupancy decreased from 95.6% to 94.2%.

In our Washington, DC region, the leasing activity continues to be slow and public sector and defense contractor demand has been adversely impacted by the federal budgetary uncertainty, potential sequestration and the reductions in discretionary spending programs. Our portfolio continues to have stable occupancy at 94.4% with modest rollover/exposure of approximately 4.8% through 2013.

Our assets in the Boston Central Business District (CBD) continue to experience demand with tenants committing to space two to three years in advance of their space needs, while the general market has a vacancy percentage rate in the mid-teens most of which is in low-rise space. We benefited from these types of advance decisions as we signed a lease for approximately 331,000 square feet with a 2015 lease commencement at 101 Huntington Avenue. During the third quarter, absorption was positive and the vacancy rate modestly improved. The East Cambridge submarket remains healthy with vacancy rates below 10% and rising rental rents. Our Cambridge portfolio is 99% leased with no material expirations until 2015. The suburbs of Boston along Route 128, where the majority of our suburban assets are located, experienced negative absorption during the third quarter. Many mid-size and larger users are contemplating leasing more space to handle their organic growth, however, the decision making process is prolonged. Our suburban portfolio is 81% leased with approximately 952,000 square feet of availability providing an opportunity as these users conclude their decision making processes.

The San Francisco CBD and Silicon Valley submarkets continue to benefit from business expansion and job growth, particularly in the technology sector, and are among the strongest in our portfolio. This is evidenced by positive absorption, lower vacancy and increasing rental rents. During the third quarter, we expanded our investments in San Francisco with the acquisition of 680 Folsom Street, which is 85% pre-leased to two technology tenants. In mid- October, we also formed a joint venture to pursue the acquisition of land that can support the development of TransBay Tower, a 61-story, 1.4 million square foot office tower.

In the third quarter of 2012, leases for approximately 923,000 square feet of space commenced revenue recognition, including leases for approximately 841,000 square feet of second generation space and leases for approximately 82,000 square feet of first generation space, stemming mostly from completion of development projects. Of the approximately 923,000 square feet, leases for approximately 124,000 square feet were signed during the third quarter of 2012 and leases for the remainder of this space were signed in prior periods. The second generation leases that commenced revenue recognition in the third quarter of 2012 had an average lease term of approximately 108 months and included an average of approximately 132 days of free rent and total transaction costs, including tenant improvements and leasing commissions, of approximately \$50 per square foot. The starting gross rents for the approximately 598,000 square feet of second generation leases that had been occupied within the prior 12 months increased on average by approximately 5.53% compared to the ending gross rents from the previous leases for this space. Lease terms are highly dependent on location (i.e., whether the property is in a CBD or suburban location), whether the lease is a renewal or with a new tenant, and the length of

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the lease term. Seventy-five percent (75%) of the leases that commenced during the quarter were with new tenants, which tend to have greater lease transaction costs.

From October 1, 2012 to December 31, 2013, leases representing approximately 5.6% of the space at our properties expire. As these leases expire, assuming no further change in current market rental rates, we expect that the rental rates we are likely to achieve on new leases will generally be approximately equal to the rates currently being paid.

We believe the successful lease-up and completion of our development pipeline will enhance our long-term return on equity and earnings growth as these developments are placed in-service through 2015. In 2013, we expect to fully place in-service Two Patriots Park in Reston, Virginia, Annapolis Junction Building Six in Annapolis, Maryland, and Seventeen Cambridge Center and the Cambridge Center Connector in Cambridge, Massachusetts, with an aggregate estimated investment of approximately \$189 million, which represents our share. In aggregate, these assets are currently 90% leased.

We also continue to actively explore acquisition opportunities in each of our markets. Since the end of the second quarter of 2012, we have acquired 680 Folsom Street in San Francisco, California, formed a joint venture that owns and operates Fountain Square in Reston, Virginia and formed a joint venture to pursue the acquisition of land in San Francisco, California to build Transbay Tower. These transactions are discussed in more detail below.

We continue to review our portfolio for the possible sale of non-core assets where the leasing profile provides an opportunity to maximize value. On September 27, 2012, our Value-Added Fund completed the sale of its 300 Billerica Road property located in Chelmsford, Massachusetts for approximately \$12.2 million, including the assumption by the buyer of \$7.5 million of mortgage indebtedness. 300 Billerica Road is an approximately 111,000 net rentable square foot office building.

Transactions during the three months ended September 30, 2012 included the following:

On July 25, 2012, a joint venture in which we have a 50% interest partially placed in-service Annapolis Junction Building Six, a Class A office property with approximately 120,000 net rentable square feet located in Annapolis, Maryland. The property is currently 49% leased.

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

On August 29, 2012, we acquired the development project located at 680 Folsom Street and 50 Hawthorne Street in San Francisco, California. When completed, the project will comprise approximately 522,000 net rentable square feet of Class A office and retail space. The project is approximately 85% pre-leased and as a result we have accounted for the acquisition as a business combination. The estimated project cost upon completion is approximately \$340 million with initial occupancy expected in the first quarter of 2014. As part of the transaction, we also acquired the corner site of 690 Folsom Street, which is an adjacent parcel with a vacant 22,000 square foot, two-story structure that may be redeveloped in the future. The consideration paid by us to the seller consisted of approximately \$62.2 million in cash and the issuance of 1,588,100 Series Four Preferred Units of limited partnership interest in our Operating Partnership (the Series Four Preferred Units). The Series Four Preferred Units are not convertible into or exchangeable for any common equity of our Operating Partnership or us, have a per unit liquidation preference of \$50.00 and are entitled to receive quarterly distributions of \$0.25 per unit (or an annual rate of 2.0%). On August 31, 2012, a holder redeemed

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366,573 Series Four Preferred Units for cash totaling approximately \$18.3 million. In connection with the acquisition, we also assumed a \$170.0 million construction loan commitment, although no amount is currently outstanding.

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

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

Transactions completed subsequent to September 30, 2012:

On October 1, 2012, a joint venture in which we have a 30% interest partially placed in-service 500 North Capitol Street, NW, a Class A office redevelopment project with approximately 232,000 net rentable square feet located in Washington, DC. The property is currently 82% leased.

On October 4, 2012, we completed the formation of a joint venture which owns and operates Fountain Square located in Reston, Virginia, adjacent to our other Reston properties. Fountain Square is an office and retail complex aggregating approximately 764,000 net rentable square feet (approximately 811,000 net rentable square feet, as re-measured in accordance with BOMA standards), comprised of approximately 522,000 net rentable square feet of Class A office space and approximately 242,000 net rentable square feet of retail space. The joint venture partner contributed the property valued at approximately \$385.0 million and related mortgage indebtedness totaling approximately \$211.3 million for a 50% interest in the joint venture. We contributed cash totaling approximately \$87.0 million for our 50% interest, which cash was distributed to the joint venture partner. We are consolidating this joint venture. The mortgage loan bears interest at a fixed rate of 5.71% per annum and matures on October 11, 2016. Pursuant to the joint venture agreement (i) we have rights to acquire the partner's 50% interest and (ii) the partner has the right to cause us to acquire the partner's interest on January 4, 2016, in each case at a fixed price totaling approximately \$102.0 million in cash. The fixed price option rights expire on January 31, 2016.

On October 19, 2012, we formed a joint venture to pursue the acquisition of land in San Francisco, California which could support a 61-story, 1.4 million square foot office tower known as Transbay Tower. The purchase price for the land is approximately \$190 million, and the acquisition is expected to close in the first quarter of 2013. We have a 50% interest in the joint venture. There can be no assurance that the acquisition will be consummated on the terms currently contemplated or at all.

On October 29, 2012, we entered into an agreement to sell our 164 Lexington Road property for approximately \$3.2 million. 164 Lexington Road is an approximately 64,000 square foot net rentable Office/Technical property located in Billerica, Massachusetts. There can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

On November 8, 2012, we declared a dividend of \$0.65 per share of common stock for the period from October 1, 2012 to December 31, 2012, payable on January 29, 2013 to shareholders of record as of the close of business on December 31, 2012. This represents an increase of approximately 18% over the prior quarterly cash dividend of \$0.55 per share.

Table of Contents**Critical Accounting Policies**

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

Real Estate

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

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

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

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

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impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value.

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

Real estate is stated at depreciated cost. A variety of costs are incurred in the acquisition, development and leasing of properties. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Beginning January 1, 2009, we are required to expense costs the acquirer incurs to effect a business combination such as legal, due diligence and other closing related costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involves a degree of judgment. Our capitalization policy on development properties is guided by guidance in ASC 835-20 Capitalization of Interest and ASC 970 Real Estate General. The costs of land and buildings under development include specifically identifiable costs.

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

Investments in Unconsolidated Joint Ventures

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

These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The

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joint venture agreements may designate different percentage allocations among investors for profits and losses, however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in VIEs, we consolidate those in which we are the primary beneficiary. Our investments in unconsolidated joint ventures are reviewed for impairment periodically and we record impairment charges when events or circumstances change indicating that a decline in the fair value below the carrying values have occurred and such decline is other-than-temporary. The ultimate realization of our investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in an unconsolidated joint venture is other than temporary.

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

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

Revenue Recognition

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

For the three and nine months ended September 30, 2012, the impact of the net adjustments of rents from above- and below-market leases increased rental revenue by approximately \$4.0 million and \$10.8 million, respectively. For the three and nine months ended September 30, 2012, the impact of the straight-line rent adjustment increased rental revenue by approximately \$20.3 million and \$59.6 million, respectively. Those amounts exclude the adjustment of rents from above- and below-market leases and straight-line income from unconsolidated joint ventures, which are disclosed in Note 4 to the Consolidated Financial Statements.

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

review relevant financial information, including:

financial ratios;

net worth;

revenue;

cash flows;

leverage; and

liquidity;

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

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

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

- (1) low risk tenants;
- (2) the tenant's credit is such that we require collateral, in which case we:

require a security deposit; and/or

reduce upfront tenant improvement investments; or

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

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

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

payment history;

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

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

tenant financial performance;

economic conditions in a specific geographic region; and

industry specific credit considerations.

If our estimates of collectability differ from the cash received, the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases, including unconsolidated joint ventures, was approximately 7.1 years as of September 30, 2012. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants' risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

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

on a net basis.

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

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

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Gains on sales of real estate are recognized pursuant to the provisions included in ASC 360-20 Real Estate Sales (ASC 360-20). The specific timing of the sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Depreciation and Amortization

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

Fair Value of Financial Instruments

For purposes of disclosure, we calculate the fair value of our mortgage notes payable and unsecured senior notes. We determine the fair value of our unsecured senior notes and unsecured exchangeable senior notes using market prices. We determine the fair value of our mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on current market rates for similar securities. In determining the current market rates, we add our estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to its debt. Because our valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate.

Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported in the Consolidated Statements of Operations as a component of net income or as a component of comprehensive income and as a component of equity on the Consolidated Balance Sheets. While management believes its judgments are reasonable, a change in a derivative's effectiveness as a hedge could materially affect expenses, net income and equity.

Results of Operations

The following discussion is based on our Consolidated Statement of Operations for the three and nine months ended September 30, 2012 and 2011.

At September 30, 2012 and September 30, 2011, we owned or had interests in a portfolio of 152 and 153 properties, respectively (in each case, the Total Property Portfolio). As a result of changes within our Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from period-to-period. Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio are necessarily meaningful. Therefore, the comparison of operating results for the three and nine months ended September 30, 2012 and 2011 show separately the changes attributable to the properties that were owned by us and in service throughout each period compared (the Same Property Portfolio) and the changes attributable to the properties included in the Placed In-Service, Acquired or Development or Redevelopment Portfolios.

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

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

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspective not immediately apparent from net income attributable to Boston Properties, Inc. NOI excludes certain components from net income attributable to Boston Properties, Inc. in order to provide results that are more closely related to a property's results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level as opposed to the property level. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. NOI presented by us may not be comparable to NOI reported by other REITs that define NOI differently. We believe that in order to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income attributable to Boston Properties, Inc. as presented in our Consolidated Financial Statements. NOI should not be considered as an alternative to net income attributable to Boston Properties, Inc. as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. For a reconciliation of NOI to net income attributable to Boston Properties, Inc., see Note 13 to the Consolidated Financial Statements.

Comparison of the nine months ended September 30, 2012 to the nine months ended September 30, 2011.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 124 properties totaling approximately 31.6 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to January 1, 2011 and owned and in service through September 30, 2012. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after January 1, 2011 or disposed of on or prior to September 30, 2012. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the nine months ended September 30, 2012 and 2011 with respect to the properties which were placed in-service, acquired or in development or redevelopment.

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	Same Property Portfolio				Properties Acquired Portfolio		Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio		Total Property Portfolio		
	2012	2011	Increase/ (Decrease)	% Change	2012	2011	2012	2011	2012	2011	2012	2011	Increase/ (Decrease)
Revenue:													
Revenue	\$ 1,178,501	\$ 1,170,652	\$ 7,849	0.67%	\$ 58,251	\$ 14,095	\$ 92,250	\$ 48,227	\$ (34)	\$ 7,881	\$ 1,328,968	\$ 1,240,855	\$ 88,113
Net Income	5,210	2,543	2,667	104.88%	321			2,591	2,571	5,267	8,102	10,401	(2,299)
Operating Revenue	1,183,711	1,173,195	10,516	0.90%	58,572	14,095	92,250	50,818	2,537	13,148	1,337,070	1,251,256	85,814
Operating	421,652	405,012	16,640	4.11%	27,213	8,752	38,359	20,127	14	2,409	487,238	436,300	50,938
Operating Income, Hotel	762,059	768,183	(6,124)	(0.80)%	31,359	5,343	53,891	30,691	2,523	10,739	849,832	814,956	34,876
Operating	6,623	4,845	1,778	36.70%							6,623	4,845	1,778
Adjusted Net Income(1)	768,682	773,028	(4,346)	(0.56)%	31,359	5,343	53,891	30,691	2,523	10,739	856,455	819,801	36,654
Revenue:													
Management and other services											25,734	24,699	1,035
Expenses:													
Operating expense											66,442	60,281	6,161
Operating costs											3,252	1,907	1,345
Operating and other	276,410	273,352	3,058	1.12%	26,566	9,891	27,084	31,466	1,883	12,817	331,943	327,526	4,417
Operating Expenses	276,410	273,352	3,058	1.12%	26,566	9,891	27,084	31,466	1,883	12,817	401,637	389,714	11,923
Operating Income	492,272	499,676	(7,404)	(1.48)%	4,793	(4,548)	26,807	(775)	640	(2,078)	480,552	454,786	25,766
Income:													
Operating joint											42,129	28,184	13,945
Other											8,029	4,179	3,850
Income from operations											1,202	(481)	1,683
Expenses:													
Operating early											4,453		4,453
Operating											308,168	288,225	19,943
Operating											219,291	198,443	20,848
Income from operations											884	(60)	944

e of real				
d		36,877		36,877
giveness of discontinued		17,807		17,807
		274,859	198,383	76,476
to ing				
ing property s		(1,461)	(1,118)	(343)
ing leemable units of the Partnership		(2,440)	(2,497)	57
ing mmon units ating		(23,393)	(23,417)	24
ing interest ued common Operating		(6,092)	8	(6,100) (76)
to Boston Inc.		\$ 241,473	\$ 171,359	\$ 70,114

- (1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 41. Hotel Net Operating Income for the nine months ended September 30, 2012 and 2011 are comprised of Hotel Revenue of \$26,224 and \$22,897 less Hotel Expenses of \$19,601 and \$18,052, respectively, per the Consolidated Statements of Operations.

Table of Contents**Same Property Portfolio*****Rental Revenue***

Rental revenue from the Same Property Portfolio increased approximately \$7.8 million for the nine months ended September 30, 2012 compared to 2011. The increase was primarily the result of an increase of approximately \$3.4 million in rental revenue from our leases, an increase in parking and other revenue of approximately \$2.7 million, which was mainly due to an increase in transient parking, and an increase in other recoveries of approximately \$1.7 million. The increase in rental revenue from our leases of approximately \$3.4 million was the result of our average revenue increasing by approximately \$0.40 per square foot, contributing approximately \$8.6 million, offset by an approximately \$5.2 million decrease due to a decline in average occupancy from 92.6% to 92.1%.

During 2013 we expect recent leasing gains in Cambridge Center, Atlantic Wharf and Embarcadero Center to result in modest improvement in our occupancy averaging between 92% and 93% and an increase of Same Property Portfolio net operating income of approximately 1.5% to 2.5% compared to 2012.

Termination Income

Termination income increased by approximately \$2.7 million for the nine months ended September 30, 2012 compared to 2011.

Termination income for the nine months ended September 30, 2012 related to sixteen tenants across the Same Property Portfolio and totaled approximately \$5.2 million of which approximately \$3.6 million was from the settlement of a bankruptcy claim against a former tenant that rejected our lease in 2009.

Termination income for the nine months ended September 30, 2011 related to ten tenants across the Same Property Portfolio and totaled approximately \$2.5 million, which included approximately \$1.8 million of termination income related to a default by a 30,000 square foot law firm tenant in one of our New York City buildings.

Real Estate Operating Expenses

Operating expenses from the Same Property Portfolio increased approximately \$16.6 million for the nine months ended September 30, 2012 compared to 2011. This increase was primarily due to (1) an increase of approximately \$10.0 million, or 5.6% in real estate taxes, which was primarily in our Boston, New York and Washington, DC regions, (2) an approximately \$3.2 million cumulative non-cash straight-line adjustment for ground rent expense (refer to Note 2 to the Consolidated Financial Statements) and (3) an approximately \$3.4 million, or 1.5%, increase in other property operating expenses.

Depreciation and Amortization Expense

Depreciation and amortization expense for the Same Property Portfolio increased approximately \$3.1 million, or 1.1%, for the nine months ended September 30, 2012 compared to 2011.

Properties Acquired Portfolio

On February 1, 2011, we completed the acquisition of Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately \$185.0 million. Bay Colony Corporate Center is an approximately 985,000 net rentable square foot, four-building Class A office park situated on a 58-acre site in Waltham, Massachusetts.

On November 22, 2011, we acquired 2440 West El Camino Real located in Mountain View, California for a purchase price of approximately \$71.1 million. 2440 West El Camino Real is an approximately 140,000 net rentable square foot Class A office property.

On March 1, 2012, we acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately \$6.7 million in cash. 453 Ravendale Drive is an approximately 30,000 net rentable square foot Office/Technical property.

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On March 13, 2012, we acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately \$615.0 million in cash. In connection with the transaction, we entered into a long-term lease with an affiliate of Bank of America for approximately 735,000 square feet. 100 Federal Street is an approximately 1,264,000 net rentable square foot, 37-story Class A office tower.

Rental Revenue

Rental revenue from our Properties Acquired Portfolio increased approximately \$44.5 million for the nine months ended September 30, 2012 compared to 2011, as detailed below:

Property	Date Acquired	Rental Revenue for the nine months ended		
		2012	September 30, 2011 (in thousands)	Change
Bay Colony Corporate Center	February 1, 2011	\$ 15,676	\$ 14,095	\$ 1,581
2440 West El Camino Real	November 22, 2011	6,128		6,128
453 Ravendale Drive	March 1, 2012	344		344
100 Federal Street	March 13, 2012	36,424		36,424
Total		\$ 58,572	\$ 14,095	\$ 44,477

Termination Income

Included in rental revenue above is approximately \$0.3 million of termination income for the nine months ended September 30, 2012 related to one tenant.

Real Estate Operating Expenses

Real estate operating expenses from our Properties Acquired Portfolio increased approximately \$18.5 million for the nine months ended September 30, 2012 compared to 2011, as detailed below:

Property	Date Acquired	Real Estate Operating Expenses for the		
		2012	nine months ended September 30, 2011 (in thousands)	Change
Bay Colony Corporate Center	February 1, 2011	\$ 9,647	\$ 8,752	\$ 895
2440 West El Camino Real	November 22, 2011	1,864		1,864
453 Ravendale Drive	March 1, 2012	114		114
100 Federal Street	March 13, 2012	15,588		15,588
Total		\$ 27,213	\$ 8,752	\$ 18,461

Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Acquired Portfolio increased by approximately \$16.7 million for the nine months ended September 30, 2012 compared to 2011 as a result of the acquisition of properties after September 30, 2011, as well as the additional depreciation expense incurred for the nine months ended September 30, 2012 associated with Bay Colony Corporate Center that was acquired on February 1, 2011 and, as a result, was not recognizing depreciation expense for the full nine months ended September 30, 2011.

Properties Placed In-Service Portfolio

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At September 30, 2012, we had six additional properties totaling approximately 2,290,000 square feet that were placed in-service or partially placed in-service between January 1, 2011 and September 30, 2012.

Table of Contents**Rental Revenue**

Rental revenue from our Properties Placed In-Service Portfolio increased approximately \$41.4 million for the nine months ended September 30, 2012 compared to 2011, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Rental Revenue for the nine months ended September 30,		
			2012	2011	Change
(in thousands)					
2200 Pennsylvania Avenue	First Quarter, 2011	Third Quarter, 2011	\$ 22,943	\$ 10,620	\$ 12,323
Residences on The Avenue	Second Quarter, 2011	Third Quarter, 2011	12,122	2,745	9,377
The Lofts at Atlantic Wharf	Third Quarter, 2011	Third Quarter, 2011	2,891	284	2,607
Atlantic Wharf Office	First Quarter, 2011	Fourth Quarter, 2011	36,614	25,389	11,225
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	14,194	3,666	10,528
One Patriots Park (formerly known as 12310 Sunrise Valley Drive)	Second Quarter, 2012	Second Quarter, 2012	3,486	8,114	(4,628)
Total			\$ 92,250	\$ 50,818	\$ 41,432

Termination Income

Included in rental revenue above is approximately \$2.6 million of termination income for the nine months ended September 30, 2011 related to lease amendments we signed on July 1, 2011 with the existing tenant at our three-building complex on Sunrise Valley Drive in Reston, Virginia. Under the agreements, the existing tenant terminated early its leases for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately \$14.8 million. During the nine months ended September 30, 2011, we recognized approximately \$7.9 million of termination income related to these agreements, of which approximately \$5.3 million is included within the Development or Redevelopment Portfolio. One of the three buildings, One Patriots Park (formerly known as 12310 Sunrise Valley Drive) has been redeveloped and placed back in-service and is being occupied by a new tenant.

Real Estate Operating Expenses

Real estate operating expenses from our Properties Placed In-Service Portfolio increased approximately \$18.2 million for the nine months ended September 30, 2012 compared to 2011, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Real Estate Operating Expenses for the nine months ended September 30,		
			2012	2011	Change
(in thousands)					
2200 Pennsylvania Avenue	First Quarter, 2011	Third Quarter, 2011	\$ 13,681	\$ 6,657	\$ 7,024
Residences on The Avenue	Second Quarter, 2011	Third Quarter, 2011	6,896	2,871	4,025
The Lofts at Atlantic Wharf	Third Quarter, 2011	Third Quarter, 2011	1,247	270	977
Atlantic Wharf Office	First Quarter, 2011	Fourth Quarter, 2011	11,392	7,416	3,976
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	4,287	1,910	2,377
One Patriots Park (formerly known as 12310 Sunrise Valley Drive)	Second Quarter, 2012	Second Quarter, 2012	856	1,003	(147)
Total			\$ 38,359	\$ 20,127	\$ 18,232

Real estate operating expenses for 2200 Pennsylvania Avenue and the Residences on The Avenue include ground rent expense, which includes the non-cash straight-lining of the ground rent expense of approximately \$8.3 million and \$3.9 million, respectively, for the nine months ended September 30, 2012 and \$3.9 million and \$1.5 million, respectively, for the nine months ended September 30, 2011.

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Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Placed In-Service Portfolio decreased by approximately \$4.4 million for the nine months ended September 30, 2012 compared to 2011. Approximately \$18.2 million of the decrease in depreciation expense for One Patriots Park was the result of the acceleration of depreciation expense during the nine months ended September 30, 2011 in conjunction with the building being taken out of service for redevelopment. This decrease was partially offset by an increase of approximately \$13.8 million in depreciation expense at the other buildings that were placed in-service.

Properties in Development or Redevelopment Portfolio

At September 30, 2012 and 2011, the Properties in Development or Redevelopment Portfolio consisted primarily of our 250 West 55th Street development project located in New York City and our Two Patriots Park (formerly known as 12300 Sunrise Valley Drive) property located in Reston, Virginia.

On February 6, 2009, we announced that we were suspending construction on our 989,000 square foot office project at 250 West 55th Street in New York City. During December 2009, we completed the construction of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. During the nine months ended September 30, 2011, we recognized approximately \$0.8 million of additional costs associated with the suspension and ongoing maintenance of the development project. On May 24, 2011, we signed a lease with the law firm of Morrison & Foerster LLP for approximately 184,000 square feet at 250 West 55th Street and construction of the project has resumed. As a result of our decision to resume development, in May 2011 we began interest capitalization and are no longer expensing costs associated with this project.

On July 1, 2011, we entered into lease amendments with the existing tenant at our three-building complex on Sunrise Valley Drive in Reston, Virginia, which will be redeveloped as the headquarters for the Defense Intelligence Agency. Under the agreements, the existing tenant terminated early its leases for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately \$14.8 million. We recognized approximately \$12.2 million of such termination income during 2011 with approximately \$7.9 million being recognized during the nine months ended September 30, 2011, of which approximately \$2.6 million is included within the Placed In-Service Portfolio. We recognized the remaining approximately \$2.6 million during the nine months ended September 30, 2012. On January 3, 2012, we commenced the redevelopment of our Two Patriots Park property at the complex, which is expected to be completed during the second quarter of 2013. During the nine months ended September 30, 2011, this building had revenue, excluding the \$5.3 million of termination income, of approximately \$7.9 million and operating expenses of approximately \$1.4 million. During the nine months ended September 30, 2012, excluding termination income, this building had de minimis revenue and operating expenses. In addition, the decrease in depreciation of approximately \$10.9 million is the result of the acceleration of depreciation expense during the nine months ended September 30, 2011 in conjunction with the redevelopment of this building.

Other Operating Income and Expense Items

Hotel Net Operating Income

Net operating income for the Cambridge Center Marriott hotel property increased by approximately \$1.8 million for the nine months ended September 30, 2012 compared to 2011. We expect our hotel net operating income for fiscal 2013 to be between \$10 million and \$11 million.

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The following reflects our occupancy and rate information for the Cambridge Center Marriott hotel for the nine months ended September 30, 2012 and 2011.

	2012	2011	Percentage Change
Occupancy	81.7%	79.8%	2.4%
Average daily rate	\$ 221.31	\$ 203.54	8.7%
Revenue per available room, REVPAR	\$ 180.78	\$ 162.36	11.3%

Development and Management Services

Development and management services income increased approximately \$1.0 million for the nine months ended September 30, 2012 compared to 2011. The increase was primarily due to an increase in development fee income of approximately \$2.8 million partially offset by a decrease in management fee income of approximately \$1.8 million. The increase in development fees is primarily due to an increase in fees associated with tenant improvement project management. The decrease in management fees is due to a decrease in leasing fees earned from our joint venture properties. We expect fee income for fiscal 2013 to be between \$24 million and \$30 million.

General and Administrative

General and administrative expenses increased approximately \$6.2 million for the nine months ended September 30, 2012 compared to 2011. We recognized approximately \$4.5 million of expense during the first quarter of 2012 in connection with the resignation of E. Mitchell Norville, our Chief Operating Officer, on February 29, 2012. This increase was partially offset by the acceleration of the remaining unrecognized compensation expense totaling approximately \$4.3 million associated with the termination of the 2008 OPP Awards during the first quarter of 2011, which did not recur in 2012. The remaining increase was primarily due to (1) an approximately \$2.5 million increase related to the issuance of the 2012 OPP Awards and non-qualified stock options, (2) an approximately \$1.4 million increase in the value of our deferred compensation plan, (3) an approximately \$0.6 million increase in taxes, (4) an approximately \$0.5 million increase in professional fees and (5) an approximately \$1.0 million increase in other general and administrative expenses, which includes compensation expense. Refer to Note 12 of the Consolidated Financial Statements for additional information regarding Mr. Norville's resignation and the issuance of the 2012 OPP Awards and non-qualified stock options. We expect general and administrative expense for fiscal 2013 to be between \$83 million and \$86 million.

Wages directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Capitalized wages for the nine months ended September 30, 2012 and 2011 were approximately \$8.8 million and \$8.2 million, respectively. These costs are not included in the general and administrative expenses discussed above.

Transaction Costs

During the nine months ended September 30, 2012 we incurred approximately \$3.3 million of transaction costs of which approximately \$0.6 million related to the acquisition of 680 Folsom Street in San Francisco, California, approximately \$0.5 million related to the acquisition of Fountain Square in Reston, Virginia, approximately \$0.6 million related to the acquisition of 100 Federal Street in Boston, Massachusetts and \$1.6 million related to the pursuit of other transactions. During the nine months ended September 30, 2011, we incurred approximately \$1.9 million of transaction pursuit costs.

Table of Contents**Other Income and Expense Items*****Income from Unconsolidated Joint Ventures***

For the nine months ended September 30, 2012 compared to 2011, income from unconsolidated joint ventures increased by approximately \$13.9 million. On May 14, 2012, an unconsolidated joint venture in which we have a 60% interest entered into a lease termination agreement with an existing tenant at the General Motors Building in New York City. Under the agreement, the tenant terminated early its lease for approximately 36,000 square feet at the building and is responsible for certain payments to the unconsolidated joint venture aggregating approximately \$28.4 million through May 1, 2014 (of which our share is approximately \$17.0 million). As a result of the termination, we recognized termination income totaling approximately \$11.8 million (which is net of the write-off of the accrued straight-line rent balance) during the nine months ended September 30, 2012. In addition, excluding the above termination, our unconsolidated joint ventures contributed approximately \$2.1 million of the increase. Refer to Note 4 of the Consolidated Financial Statements for additional details regarding the operating results of our unconsolidated joint ventures. For fiscal 2013 we expect a decrease in income from unconsolidated joint ventures of \$20 million to \$30 million (our share) compared to fiscal 2012 due to \$15 million of termination income and rental income from a retail tenant at the General Motors Building in New York City where we expect no income during 2013 and \$5 million to \$15 million (our share) decline in revenues from 540 Madison Avenue and 125 West 55th Street due to lease expirations. These decreases are offset by the completion of 500 North Capitol Street in Washington, DC.

Interest and Other Income

Interest and other income increased approximately \$3.9 million for the nine months ended September 30, 2012 compared to 2011. Interest income for the nine months ended September 30, 2012 compared to 2011 increased approximately \$0.7 million due to an increase in the average cash balance partially offset by overall lower interest rates. The average daily cash balances for the nine months ended September 30, 2012 and September 30, 2011 were approximately \$1.2 billion and \$0.9 billion, respectively.

Other income for the nine months ended September 30, 2012 compared to 2011 increased by approximately \$3.2 million of which approximately \$2.9 million related to the sale of historic tax credits and \$1.1 million was related to an insurance claim that we received during 2012. On October 20, 2010, we closed a transaction with a financial institution (the HTC Investor) related to the historic rehabilitation of the residential component of our Atlantic Wharf development in Boston, Massachusetts (the residential project). The HTC Investor has contributed an aggregate of approximately \$15 million to the project. As part of its contribution, the HTC Investor will receive substantially all of the benefits derived from the tax credits. Beginning in July 2012 to July 2016, we recognized and will recognize the cash received as revenue over the five year tax credit recapture period as defined in the Internal Revenue Code. During the nine months ended September 30, 2012, we recognized approximately \$2.9 million of the \$15 million that the HTC Investor had contributed to us.

On June 6, 2006, we sold 280 Park Avenue in New York City. In connection with the sale, in lieu of a closing adjustment in favor of the buyer for certain unfunded tenant improvements, we retained the obligation to pay for the improvements, subject to the tenant initiating the request for reimbursement. The total amount of unfunded tenant improvements at closing was approximately \$1.0 million and has yet to be requested by the tenants. During the nine months ended September 30, 2011, a tenant's lease expired for which we had unfunded tenant improvement liabilities of approximately \$0.8 million, resulting in the recognition of other income in that amount.

Gains (Losses) from Investments in Securities

Gains (losses) from investments in securities for the nine months ended September 30, 2012 and 2011 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for our officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer's current income on a pre-tax basis and receive a tax-deferred return on

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these deferrals based on the performance of specific investments selected by the officer. In order to reduce our market risk relating to this plan, we typically acquire, in a separate account that is not restricted as to its use, similar or identical investments as those selected by each officer. This enables us to generally match our liabilities to our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The performance of these investments is recorded as gains (losses) from investments in securities. During the nine months ended September 30, 2012 and 2011, we recognized gains (losses) of approximately \$1.2 million and \$(0.5) million, respectively, on these investments. By comparison, our general and administrative expense increased (decreased) by approximately \$1.1 million and \$(0.3) million during the nine months ended September 30, 2012 and 2011, respectively, as a result of increases (decreases) in our liability under our deferred compensation plan that were associated with the performance of the specific investments selected by our officers participating in the plan.

Losses from Early Extinguishments of Debt

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

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

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

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

In connection with the repurchase and redemption in February 2012 of our Operating Partnership's 2.875% Exchangeable Senior Notes due 2037, we recognized a loss on early extinguishment of debt of approximately \$0.1 million related to the expensing of transaction related costs.

Table of Contents**Interest Expense**

Interest expense for the Total Property Portfolio increased approximately \$19.9 million for the nine months ended September 30, 2012 compared to 2011 as detailed below:

Component	Change in interest expense for the nine months ended September 30, 2012 compared to September 30, 2011 (in thousands)	
Increases to interest expense due to:		
Issuance by our Operating Partnership of \$850 million in aggregate principal of 3.700% senior notes due 2018 on November 10, 2011	\$	23,777
New mortgage/properties placed in-service financings		22,002
Issuance by our Operating Partnership of \$1.0 billion in aggregate principal of 3.850% senior notes due 2023 on June 11, 2012		11,834
Decrease in capitalized interest due to properties being placed in-service		4,791
Other interest expense (excluding senior notes) partially offset by principal amortization of continuing debt		547
Total increases to interest expense	\$	62,951
Decreases to interest expense due to:		
Repayment of mortgage financings	\$	(19,210)
Repurchases/redemption of \$576.2 million in aggregate principal of 2.875% exchangeable senior notes due 2037		(12,982)
Interest expense associated with the adjustment for the equity component allocation of our unsecured exchangeable debt		(6,962)
Redemption of \$225.0 million in aggregate principal of 6.25% unsecured senior notes due 2013		(2,598)
Interest on our Operating Partnership's Unsecured Line of Credit		(1,256)
Total decreases to interest expense	\$	(43,008)
Total change in interest expense	\$	19,943

The following properties are included in the new mortgages/properties placed in-service financings line item: 601 Lexington Avenue and 680 Folsom Street. The following properties are included in the repayment of mortgage financings line item: 601 Lexington Avenue, Reservoir Place, Atlantic Wharf, 510 Madison Avenue, Bay Colony Corporate Center, One Freedom Square and Sumner Square. As properties are placed in-service, we cease capitalizing interest and interest is then expensed.

Interest expense directly related to the development of rental properties is not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Interest capitalized for the nine months ended September 30, 2012 and 2011 was approximately \$31.4 million and \$36.2 million, respectively. These costs are not included in the interest expense referenced above.

We anticipate net interest expense for 2013 will be \$385 million to \$395 million. This estimate assumes \$55 million to \$65 million of capitalized interest. We project that debts maturing in 2013 will be refinanced for their maturing principal amount at current long term interest rates. This estimate assumes that we will not incur any additional indebtedness, make additional prepayments or repurchase of existing indebtedness, and that there will not be any fluctuations in interest rates or any changes in our development activity.

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At September 30, 2012, our variable rate debt consisted of our Operating Partnership's \$750.0 million Unsecured Line of Credit and our construction loan at 680 Folsom Street. For a summary of our consolidated debt as of September 30, 2012 and September 30, 2011 refer to the heading *Liquidity and Capital Resources Capitalization Debt Financing* within *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Discontinued Operations

On May 17, 2012, we completed the sale of our Bedford Business Park properties located in Bedford, Massachusetts for approximately \$62.8 million in cash. Net cash proceeds totaled approximately \$62.0 million, resulting in a gain on sale of approximately \$36.9 million. Bedford Business Park is comprised of two Office/Technical buildings and one Class A office building aggregating approximately 470,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented. Refer to Note 3 of the Consolidated Financial Statements for additional details regarding the sale and operating results.

On January 31, 2012, the servicer of the non-recourse mortgage loan collateralized by our Montvale Center property located in Gaithersburg, Maryland foreclosed on the property. During 2011, we had notified the master servicer of the non-recourse mortgage loan that the cash flows generated from the property were insufficient to fund debt service payments and capital improvements necessary to lease and operate the property and that we were not prepared to fund any cash shortfalls. We were not current on making debt service payments and were accruing interest at the default interest rate of 9.93% per annum. The loan was originally scheduled to mature on June 6, 2012. As a result of the foreclosure, the mortgage loan totaling \$25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate and working capital to the servicer. We no longer have any equitable or economic interest ownership in the property. The transaction resulted in a gain on forgiveness of debt of approximately \$17.8 million. The operating results of the property through the date of foreclosure have been classified as discontinued operations on a historical basis for all periods presented. Refer to Note 3 of the Consolidated Financial Statements for additional details regarding the foreclosure and operating results of the property.

Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships consisted of the outside owner's equity interest in the income from our 505 9 Street property.

Comparison of the three months ended September 30, 2012 to the three months ended September 30, 2011.

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 129 properties totaling approximately 32.7 million net rentable square feet of space, excluding unconsolidated joint ventures. The Same Property Portfolio includes properties acquired or placed in-service on or prior to July 1, 2011 and owned and in service through September 30, 2012. The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or in development or redevelopment after July 1, 2011 or disposed of on or prior to September 30, 2012. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the three months ended September 30, 2012 and 2011 with respect to the properties which were placed in-service, acquired or in development or redevelopment.

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Dollars in thousands)	Same Property Portfolio				Properties Acquired Portfolio		Properties Placed In-Service Portfolio		Properties in Development or Redevelopment Portfolio		Total Property Portfolio			
	2012	2011	Increase/ (Decrease)	% Change	2012	2011	2012	2011	2012	2011	2012	2011	Increase/ (Decrease)	% Change
Rental Revenue:														
Rental Revenue	\$ 400,781	\$ 400,638	\$ 143	0.04%	\$ 19,037	\$	\$ 32,744	\$ 22,099	\$	\$ 2,555	\$ 452,562	\$ 425,292	\$ 27,270	6.41%
Termination Income	812	330	482	146.06%	147			2,591		5,267	959	8,188	(7,229)	(88.29)%
Total Rental Revenue	401,593	400,968	625	0.16%	19,184		32,744	24,690		7,822	453,521	433,480	20,041	4.62%
Real Estate Operating Expenses														
Real Estate Operating Expenses	147,335	142,475	4,860	3.41%	8,233		13,371	10,853		448	168,939	153,776	15,163	9.86%
Net Operating Income, including hotel														
Net Operating Income, including hotel	254,258	258,493	(4,235)	(1.64)%	10,951		19,373	13,837		7,374	284,582	279,704	4,878	1.74%
Hotel Net Operating Income(1)														
Hotel Net Operating Income(1)	2,473	2,013	460	22.85%							2,473	2,013	460	22.85%
Consolidated Net Operating Income(1)														
Consolidated Net Operating Income(1)	256,731	260,506	(3,775)	(1.45)%	10,951		19,373	13,837		7,374	287,055	281,717	5,338	1.89%
Other Revenue:														
Development and management services											8,024	8,178	(154)	(1.88)%
Other Expenses:														
General and administrative expense											19,757	16,917	2,840	16.79%
Transaction costs											1,140	474	666	140.51%
Depreciation and amortization	94,464	95,259	(795)	(0.83)%	7,437		9,459	7,912		5,503	111,360	108,674	2,686	2.47%
Total Other Expenses	94,464	95,259	(795)	(0.83)%	7,437		9,459	7,912		5,503	132,257	126,065	6,192	4.91%
Operating Income														
Operating Income	162,267	165,247	(2,980)	(1.80)%	3,514		9,914	5,925		1,871	162,822	163,830	(1,008)	(0.62)%
Other Income:														
Income from consolidated joint ventures											9,217	11,326	(2,109)	(18.62)%
Interest and other income											4,001	1,252	2,749	219.57%
Gains (losses) from investments in securities											587	(860)	1,447	168.26%
Other Expenses:														
Losses from early extinguishments of debt											5,494		5,494	100.00%
Interest expense											105,030	95,117	9,913	10.42%
Income from continuing operations														
Income from continuing operations											66,103	80,431	(14,328)	(17.81)%
Income from discontinued operations:														
Income from discontinued operations												20	(20)	(100.00)%

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Net income	66,103	80,451	(14,348)	(17.83)%
Net income attributable to noncontrolling interests:				
Noncontrolling interests in property partnerships	(458)	(86)	(372)	(432.56)%
Noncontrolling interest - redeemable preferred units of the Operating Partnership	(874)	(832)	(42)	(5.05)%
Noncontrolling interest - common units of the Operating Partnership	(7,002)	(8,989)	1,987	22.10%
Noncontrolling interest in discontinued operations - common units of the Operating Partnership		(2)	2	100.00%
Net Income attributable to Boston Properties, Inc.	\$ 57,769	\$ 70,542	\$ (12,773)	(18.11)%

- (1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 41. Hotel Net Operating Income for the three months ended September 30, 2012 and 2011 are comprised of Hotel Revenue of \$9,359 and \$8,045 less Hotel Expenses of \$6,886 and \$6,032, respectively, per the Consolidated Statements of Operations.

Table of Contents**Same Property Portfolio*****Rental Revenue***

Rental revenue from the Same Property Portfolio, which includes our one Same Property residential property, increased approximately \$0.1 million for the three months ended September 30, 2012 compared to 2011. The increase was primarily the result of an increase of approximately \$0.6 million in revenue from our leases and an increase in parking and other revenue of approximately \$0.9 million, which was mainly due to an increase in transient parking, partially offset by a decrease in other recoveries of approximately \$1.4 million. Excluding our residential property, rental revenue from our leases decreased approximately \$0.1 million as the result of our average revenue increasing by approximately \$0.04 per square foot, contributing approximately \$0.3 million, offset by an approximately \$0.4 million decrease due to a decline in average occupancy from 91.5% to 91.3%.

Termination Income

Termination income increased by approximately \$0.5 million for the three months ended September 30, 2012 compared to 2011.

Termination income for the three months ended September 30, 2012 related to nine tenants across the Same Property Portfolio and totaled approximately \$0.8 million, of which approximately \$0.4 million was related to a restoration obligation for a tenant whose lease had expired.

Termination income for the three months ended September 30, 2011 related to five tenants across the Same Property Portfolio and totaled approximately \$0.3 million.

Real Estate Operating Expenses

Operating expenses from the Same Property Portfolio, which includes our one Same Property residential property, increased approximately \$4.9 million for the three months ended September 30, 2012 compared to 2011 due primarily to (1) an increase of approximately \$4.0 million, or 6.4%, in real estate taxes, which was primarily in our Boston, New York and Washington, DC regions and (2) an increase of approximately \$2.2 million, or 4.1% in other operating expenses, partially offset by an approximately \$1.3 million decrease in utilities expense.

Residential Net Operating Income

Net operating income for the The Lofts at Atlantic Wharf increased by approximately \$0.5 million for the three months ended September 30, 2012 compared to 2011.

The following reflects our occupancy and rate information for The Lofts at Atlantic Wharf for the three months ended September 30, 2012 and 2011.

	2012	2011	Percentage Change
Physical Occupancy	95.4%	55.8%	71.0%
Economic Occupancy	94.7%	41.2%	129.9%
Average Rental Rate	\$ 3,654	\$ 3,439	6.3%
Average Rental Rate Per Occupied Square Foot	\$ 4.13	\$ 4.31	(4.2)%

Depreciation and Amortization Expense

Depreciation and amortization expense for the Same Property Portfolio decreased approximately \$0.8 million for the three months ended September 30, 2012 compared to 2011 due primarily to two large tenant lease expirations during 2011 and earlier in 2012 in our Washington, DC and Boston regions, which did not recur during the three months ended September 30, 2012.

Table of Contents**Properties Acquired Portfolio**

On November 22, 2011, we acquired 2440 West El Camino Real located in Mountain View, California for a purchase price of approximately \$71.1 million. 2440 West El Camino Real is an approximately 140,000 net rentable square foot Class A office property.

On March 1, 2012, we acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately \$6.7 million in cash. 453 Ravendale Drive is an approximately 30,000 net rentable square foot Office/Technical property.

On March 13, 2012, we acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately \$615.0 million in cash. In connection with the transaction, we entered into a long-term lease with an affiliate of Bank of America for approximately 735,000 square feet. 100 Federal Street is an approximately 1,264,000 net rentable square foot, 37-story Class A office tower.

Rental Revenue

Rental revenue from our Properties Acquired Portfolio increased approximately \$19.2 million for the three months ended September 30, 2012 compared to 2011, as detailed below:

Property	Date Acquired	Rental Revenue for the three months ended September 30,		
		2012	2011	Change
(in thousands)				
2440 West El Camino Real	November 22, 2011	\$ 2,159	\$	\$ 2,159
453 Ravendale Drive	March 1, 2012	148		148
100 Federal Street	March 13, 2012	16,877		16,877
Total		\$ 19,184	\$	\$ 19,184

Termination Income

Included in rental revenue above is approximately \$0.1 million of termination income for the three months ended September 30, 2012 related to one tenant.

Real Estate Operating Expenses

Real estate operating expenses from our Properties Acquired Portfolio increased approximately \$8.2 million for the three months ended September 30, 2012 compared to 2011, as detailed below:

Property	Date Acquired	Real Estate Operating Expenses for the three months ended September 30,		
		2012	2011	Change
(in thousands)				
2440 West El Camino Real	November 22, 2011	\$ 675	\$	\$ 675
453 Ravendale Drive	March 1, 2012	52		52
100 Federal Street	March 13, 2012	7,506		7,506
Total		\$ 8,233	\$	\$ 8,233

Depreciation and Amortization Expense

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Depreciation and amortization expense for our Properties Acquired Portfolio increased by approximately \$7.4 million for the three months ended September 30, 2012 compared to 2011 as a result of the acquisition of properties after September 30, 2011.

Table of Contents**Properties Placed In-Service Portfolio**

At September 30, 2012, we had five additional properties totaling approximately 2,203,000 square feet that were placed in-service or partially placed in-service between July 1, 2011 and September 30, 2012.

Rental Revenue

Rental revenue from our Properties Placed In-Service Portfolio increased approximately \$8.1 million for the three months ended September 30, 2012 compared to 2011, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Rental Revenue for the three months ended September 30,		
			2012	2011	Change
			(in thousands)		
2200 Pennsylvania Avenue	First Quarter, 2011	Third Quarter, 2011	\$ 7,933	\$ 6,682	\$ 1,251
Residences on The Avenue	Second Quarter, 2011	Third Quarter, 2011	4,501	2,169	2,332
Atlantic Wharf Office	First Quarter, 2011	Fourth Quarter, 2011	12,852	10,772	2,080
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	5,330	2,406	2,924
One Patriots Park (formerly known as 12310 Sunrise Valley Drive)	Second Quarter, 2012	Second Quarter, 2012	2,128	2,661	(533)
Total			\$ 32,744	\$ 24,690	\$ 8,054

Termination Income

Included in rental revenue above is approximately \$2.6 million of termination income for the three months ended September 30, 2011 related to lease amendments we signed on July 1, 2011 with the existing tenant at our three-building complex on Sunrise Valley Drive in Reston, Virginia. Under the agreements, the existing tenant terminated early its leases for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately \$14.8 million. During the three months ended September 30, 2011, we recognized approximately \$7.9 million of termination income related to these agreements, of which approximately \$5.3 million is included within the Development or Redevelopment Portfolio. One of the three building, One Patriots Park (formerly known as 12310 Sunrise Valley Drive) has been redeveloped and placed back in-service and is being occupied by a new tenant.

Real Estate Operating Expenses

Real estate operating expenses from our Properties Placed In-Service Portfolio increased approximately \$2.5 million for the three months ended September 30, 2012 compared to 2011, as detailed below:

Property	Quarter Initially Placed In-Service	Quarter Fully Placed In-Service	Real Estate Operating Expenses for the three months ended September 30,		
			2012	2011	Change
			(in thousands)		
2200 Pennsylvania Avenue	First Quarter, 2011	Third Quarter, 2011	\$ 4,476	\$ 4,038	\$ 438
Residences on The Avenue	Second Quarter, 2011	Third Quarter, 2011	2,364	2,148	216
Atlantic Wharf Office	First Quarter, 2011	Fourth Quarter, 2011	4,251	3,333	918
510 Madison Avenue	Second Quarter, 2011	Second Quarter, 2012	1,726	1,302	424
One Patriots Park (formerly known as 12310 Sunrise Valley Drive)	Second Quarter, 2012	Second Quarter, 2012	554	32	522
Total			\$ 13,371	\$ 10,853	\$ 2,518

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Real estate operating expenses for 2200 Pennsylvania Avenue and the Residences on The Avenue include ground rent expense, which includes the non-cash straight-lining of the ground rent expense of approximately \$2.8 million and \$1.3 million, respectively, for the three months ended September 30, 2012 and \$2.6 million and \$1.2 million, respectively, for the three months ended September 30, 2011.

Depreciation and Amortization Expense

Depreciation and amortization expense for our Properties Placed In-Service Portfolio increased by approximately \$1.5 million for the three months ended September 30, 2012 compared to 2011. This increase was the result of an approximately \$3.6 million increase in depreciation expense at our other buildings that were placed in-service partially offset by an approximately \$2.1 million decrease in depreciation expense for One Patriots Park as the result of the acceleration of depreciation expense during the three months ended September 30, 2011 in conjunction with the building being taken out of service for redevelopment.

Properties in Development or Redevelopment Portfolio

At September 30, 2012 and 2011, the Properties in Development or Redevelopment Portfolio consisted primarily of our Two Patriots Park (formerly known as 12300 Sunrise Valley Drive) property located in Reston, Virginia.

On January 3, 2012, we commenced the redevelopment of our Two Patriots Park property at the complex, which is expected to be completed during the second quarter of 2013. During the three months ended September 30, 2011, this building had revenue of approximately \$7.8 million, which included approximately \$5.3 million of termination income and operating expenses of approximately \$0.5 million. The termination income related to lease amendments we signed on July 1, 2011 with the existing tenant. Under the agreements, the existing tenant terminated early its lease for approximately 523,000 square feet at the complex and was responsible for certain payments to us aggregating approximately \$14.8 million. During the three months ended September 30, 2011, we recognized approximately \$7.9 million of termination income related to these agreements, of which approximately \$2.6 million is included within the Placed in Service Portfolio. As the building is currently under redevelopment, it did not have any operating results for the three months ended September 30, 2012. In addition, the decrease in depreciation of approximately \$5.5 million is the result of the acceleration of depreciation expense during the three months ended September 30, 2011 in conjunction with the redevelopment of this building.

Other Operating Income and Expense Items***Hotel Net Operating Income***

Net operating income for the Cambridge Center Marriott hotel property increased by approximately \$0.5 million for the three months ended September 30, 2012 compared to 2011.

The following reflects our occupancy and rate information for the Cambridge Center Marriott hotel for the three months ended September 30, 2012 and 2011.

	2012	2011	Percentage Change
Occupancy	84.3%	84.6%	(0.4)%
Average daily rate	\$ 234.18	\$ 207.86	12.7%
Revenue per available room, REVPAR	\$ 197.32	\$ 175.85	12.2%

Development and Management Services

Development and management services income decreased approximately \$0.2 million for the three months ended September 30, 2012 compared to 2011. The decrease was primarily due to a decrease in management fee income of approximately \$0.5 million partially offset by an increase in development fee income of approximately

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\$0.3 million. The decrease in management fees is due primarily to a decrease in management fees earned from our joint venture properties. The increase in development fees is primarily due to an increase in fees associated with tenant improvement project management partially offset by a decrease in the development fees related to development projects that we were working on in our Boston region.

General and Administrative

General and administrative expenses increased approximately \$2.8 million for the three months ended September 30, 2012 compared to 2011. The increase was due primarily to an increase in compensation expense of approximately \$2.9 million partially offset by an approximately \$0.1 million decrease in other general and administrative expenses. The increase in compensation expenses is due to (1) an approximately \$1.4 million increase in the value of our deferred compensation, (2) an approximately \$0.8 million increase related to the issuance of the 2012 OPP Awards and non-qualified stock options and (3) an increase of approximately \$0.7 million in other compensation related expenses.

Wages directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Capitalized wages for the three months ended September 30, 2012 and 2011 were approximately \$2.8 million and \$2.7 million, respectively. These costs are not included in the general and administrative expenses discussed above.

Transaction Costs

During the three months ended September 30, 2012 we incurred approximately \$1.1 million of transaction costs of which approximately \$0.6 million related to the acquisition of 680 Folsom Street in San Francisco, California and approximately \$0.5 million related to the acquisition of Fountain Square in Reston, Virginia. During the three months ended September 30, 2011, we incurred approximately \$0.5 million of transaction pursuit costs.

Other Income and Expense Items

Income from Unconsolidated Joint Ventures

For the three months ended September 30, 2012 compared to 2011, income from unconsolidated joint ventures decreased by approximately \$2.1 million of which approximately \$3.9 million of the decrease was due to a decrease in net operating income from the General Motors building due to lease terminations which occurred in 2011 and earlier in 2012, partially offset by an increase of which approximately \$1.8 million came from our other unconsolidated joint ventures.

Interest and Other Income

Interest and other income increased approximately \$2.7 million for the three months ended September 30, 2012 compared to 2011. During the three months ended September 30, 2012 compared to 2011, interest income decreased by approximately \$0.2 million. During the three months ended September 30, 2012 compared to 2011, other income increased by approximately \$2.9 million. On October 20, 2010, we closed a transaction with the HTC Investor related to the historic rehabilitation of the residential component of our Atlantic Wharf development in Boston, Massachusetts. The HTC Investor has contributed an aggregate of approximately \$15 million to the project. As part of its contribution, the HTC Investor will receive substantially all of the benefits derived from the tax credits. Beginning in July 2012 to July 2016, we recognized and will recognize the cash received as revenue over the five year tax credit recapture period as defined in the Internal Revenue Code. During the three months ended September 30, 2012, we recognized approximately \$2.9 million of the \$15 million that the HTC Investor had contributed to us.

Table of Contents***Gains (losses) from Investments in Securities***

Gains (losses) from investments in securities for the three months ended September 30, 2012 and 2011 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for our officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer's current income on a pre-tax basis and receive a tax-deferred return on these deferrals based on the performance of specific investments selected by the officer. In order to reduce our market risk relating to this plan, we typically acquire, in a separate account that is not restricted as to its use, similar or identical investments as those selected by each officer. This enables us to generally match our liabilities to our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The performance of these investments is recorded as gains (losses) from investments in securities. During the three months ended September 30, 2012 and 2011, we recognized gains (losses) of approximately \$0.6 million and \$(0.9) million, respectively, on these investments. By comparison, our general and administrative expense increased (decreased) by approximately \$0.6 million and \$(0.8) million during the three months ended September 30, 2012 and 2011, respectively, as a result of increases (decreases) in our liability under our deferred compensation plan that were associated with the performance of the specific investments selected by our officers participating in the plan.

Losses from Early Extinguishments of Debt

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

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

Table of Contents**Interest Expense**

Interest expense for the Total Property Portfolio increased approximately \$9.9 million for the three months ended September 30, 2012 compared to 2011 as detailed below:

Component	Change in interest expense for the three months ended September 30, 2012 compared to September 30, 2011 (in thousands)	
Increases to interest expense due to:		
Issuance by our Operating Partnership of \$1.0 billion in aggregate principal of 3.850% senior notes due 2023 on June 11, 2012	\$	9,678
New mortgage/properties placed in-service financings		8,732
Issuance by our Operating Partnership of \$850 million in aggregate principal of 3.700% senior notes due 2018 on November 10, 2011		7,926
Decrease in capitalized interest due to properties being placed in-service		2,873
Other interest expense (excluding senior notes) partially offset by principal amortization of continuing debt		70
Total increases to interest expense	\$	29,279
Decreases to interest expense due to:		
Repayment of mortgage financings	\$	(7,586)
Repurchases/redemption of \$576.2 million in aggregate principal of 2.875% exchangeable senior notes due 2037		(5,351)
Interest expense associated with the adjustment for the equity component allocation of our unsecured exchangeable debt		(2,883)
Redemption of \$225.0 million in aggregate principal of 6.25% senior notes due 2013		(2,600)
Interest on our Operating Partnership's Unsecured Line of Credit		(946)
Total decreases to interest expense	\$	(19,366)
Total change in interest expense	\$	9,913

The following properties are included in the new mortgages/properties placed in-service financings line item: 601 Lexington Avenue and 680 Folsom Street. The following properties are included in the repayment of mortgage financings line item: 601 Lexington Avenue, Reservoir Place, Atlantic Wharf, 510 Madison Avenue, Bay Colony Corporate Center, One Freedom Square and Sumner Square. As properties are placed in-service, we cease capitalizing interest and interest is then expensed.

Interest expense directly related to the development of rental properties is not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over the useful lives of the real estate. Interest capitalized for the three months ended September 30, 2012 and 2011 was approximately \$10.1 million and \$13.0 million, respectively. These costs are not included in the interest expense referenced above.

At September 30, 2012, our variable rate debt consisted of our Operating Partnership's \$750.0 million Unsecured Line of Credit and our construction loan at 680 Folsom Street. For a summary of our consolidated debt as of September 30, 2012 and September 30, 2011 refer to the heading *Liquidity and Capital Resources Capitalization Debt Financing* within *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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Discontinued Operations

On May 17, 2012, we completed the sale of our Bedford Business Park properties located in Bedford, Massachusetts for approximately \$62.8 million in cash. Net cash proceeds totaled approximately \$62.0 million, resulting in a gain on sale of approximately \$36.9 million. Bedford Business Park is comprised of two Office/Technical buildings and one Class A office building aggregating approximately 470,000 net rentable square feet. The operating results of the property through the date of sale have been classified as discontinued operations on a historical basis for all periods presented. Refer to Note 3 of the Consolidated Financial Statements for additional details regarding the sale and operating results.

On January 31, 2012, the servicer of the non-recourse mortgage loan collateralized by our Montvale Center property located in Gaithersburg, Maryland foreclosed on the property. During 2011, we had notified the master servicer of the non-recourse mortgage loan that the cash flows generated from the property were insufficient to fund debt service payments and capital improvements necessary to lease and operate the property and that we were not prepared to fund any cash shortfalls. We were not current on making debt service payments and were accruing interest at the default interest rate of 9.93% per annum. The loan was originally scheduled to mature on June 6, 2012. As a result of the foreclosure, the mortgage loan totaling \$25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate and working capital to the servicer. We no longer have any equitable or economic interest ownership in the property. The operating results of the property through the date of foreclosure have been classified as discontinued operations on a historical basis for all periods presented. Refer to Note 3 of the Consolidated Financial Statements for additional details regarding the foreclosure and operating results of the property.

Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships consisted of the outside owner's equity interest in the income from our 505 9 Street property.

Noncontrolling Interest-Common Units of the Operating Partnership

Noncontrolling interest-common units of the Operating Partnership decreased by approximately \$2.0 million for the three months ended September 30, 2012 compared to 2011 due to a decreases in allocable income and the noncontrolling interest's ownership percentage.

Liquidity and Capital Resources

General

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

fund normal recurring expenses;

meet debt service and principal repayment obligations, including balloon payments on maturing debt;

redeem or meet repurchase obligations that may be elected in May 2013 by our Operating Partnership or holders, respectively, with respect to our Operating Partnership's 3.750% exchangeable senior notes due 2036;

fund capital expenditures, including major renovations, tenant improvements and leasing costs;

fund development costs;

fund possible property acquisitions; and

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make the minimum distribution required to maintain our REIT qualification under the Internal Revenue Code of 1986, as amended.

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We expect to satisfy these needs using one or more of the following:

cash flow from operations;

distribution of cash flows from joint ventures;

cash and cash equivalent balances;

issuances of our equity securities and/or additional preferred or common units of partnership interest in our Operating Partnership;

our Operating Partnership's Unsecured Line of Credit or other short-term bridge facilities;

construction loans;

long-term secured and unsecured indebtedness (including unsecured exchangeable indebtedness); and

sales of real estate.

We draw on multiple financing sources to fund our long-term capital needs. Our Operating Partnership's Unsecured Line of Credit is utilized primarily as a bridge facility to fund acquisition opportunities, refinance outstanding indebtedness and meet short-term development and working capital needs. Although we generally seek to fund our development projects with construction loans, which may be guaranteed by our Operating Partnership, the financing for each particular project ultimately depends on several factors, including, among others, the project's size and duration, the extent of pre-leasing and our available cash and access to cost effective capital at the given time.

The following table presents information on properties under construction as of September 30, 2012 (dollars in thousands):

Construction Properties	Estimated Stabilization Date	Location	# of Buildings	Square feet	Investment to Date(1)	Estimated	
						Total Investment(1)	Percentage Leased(2)
Office							
Annapolis Junction Building Six (50% ownership) (3)	Third Quarter, 2013	Annapolis, MD	1	120,000	\$ 11,239	\$ 14,000	49%
500 North Capitol Street, NW (30% ownership)(3)	Fourth Quarter, 2013	Washington, DC	1	232,000	28,684	36,540	82%
Two Patriots Park (formerly known as 12300 Sunrise Valley Drive)(4)	Second Quarter, 2013	Reston, VA	1	255,951	42,555	64,000	100%
Seventeen Cambridge Center	Third Quarter, 2013	Cambridge, MA	1	195,191	46,266	86,300	100%
Cambridge Center Connector(5)	Third Quarter, 2013	Cambridge, MA		42,500	2,470	24,600	100%
680 Folsom Street (3)	Third Quarter, 2015	San Francisco, CA	2	522,000	163,693	340,000	85%
250 West 55 th Street(6)	Fourth Quarter, 2015	New York, NY	1	989,000	690,211	1,050,000	21%
Total Office Properties under Construction			7	2,356,642	\$ 985,118	\$ 1,615,440	59%
Residential							
	Fourth Quarter, 2015	Reston, VA	1	355,668	\$ 47,360	\$ 137,250	NA

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The Avant at Reston Town Center (359 units)

Total Properties under Construction	8	2,712,310	\$ 1,032,478	\$ 1,752,690	59%
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- (1) Represents our share. Includes net revenue during lease up period, acquisition expenses and approximately \$60.6 million of construction cost and leasing commission accruals.
- (2) Represents percentage leased as of November 2, 2012, includes leases with future commencement dates and excludes residential space.
- (3) This development project has a construction loan.
- (4) Project costs include the incremental costs related to redevelopment and excludes original investment in the asset.
- (5) This project is part of a lease expansion and extension for a tenant at Cambridge Center.
- (6) Investment to Date excludes approximately \$24.8 million of costs that were expensed in prior periods in connection with the suspension of development activities. Estimated Total Investment includes approximately \$230 million of interest capitalization.

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Contractual rental revenue, recoveries from tenants, other income from operations, available cash balances and draws on our Operating Partnership's Unsecured Line of Credit are our principal sources of capital used to pay operating expenses, debt service, recurring capital expenditures and the minimum distribution required to enable us to maintain our REIT qualification. We seek to maximize income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and permit increases in rental rates while reducing tenant turnover and controlling operating expenses. Our sources of revenue also include third-party fees generated by our property management, leasing, and development and construction businesses, as well as the sale of assets from time to time. We believe our revenue, together with our cash balances and proceeds from financing activities, will continue to provide the necessary funds for our short-term liquidity needs.

Material adverse changes in one or more sources of capital may adversely affect our net cash flows. Such changes, in turn, could adversely affect our ability to fund dividends and distributions, debt service payments and tenant improvements. In addition, a material adverse change in the cash provided by our operations may affect our ability to comply with the financial covenants under our Operating Partnership's Unsecured Line of Credit and unsecured senior notes.

Since January 1, 2012, we issued an aggregate of 2,347,500 shares of our common stock under our at the market (ATM) stock offering program for gross proceeds of approximately \$249.8 million and net proceeds of approximately \$247.2 million. Our ATM stock offering program provides us with the ability to sell from time to time up to an aggregate of \$600.0 million of our common stock through sales agents for a three-year period. As of November 2, 2012, approximately \$305.3 million remained available for issuance under this ATM program. We intend to use the net proceeds from the sales for general business purposes, which may include investment opportunities and debt reduction. Pending such uses, we may invest the net proceeds in short-term, interest-bearing securities.

On August 29 2012, in connection with our acquisition of 680 Folsom Street, our Operating Partnership issued 1,588,100 Series Four Preferred Units of limited partnership interest having a per unit liquidation preference of \$50 and the right to receive quarterly distributions of \$0.25 per unit for an aggregate value of approximately \$79.4 million. An aggregate of 366,573 of such units were redeemed on August 31, 2012.

Since January 1, 2012, we repurchased and redeemed the remaining \$576.2 million of our Operating Partnership's 2.875% exchangeable senior notes due 2037. In addition, we repaid an aggregate of \$209.0 million of secured debt. After completing these transactions, we have satisfied all of our 2012 debt maturities. In anticipation of funding our capital commitments for development and repayment of debt through 2013 our Operating Partnership issued \$1.0 billion of senior unsecured notes due 2023 at an effective yield of 3.954%. On August 24, 2012, our Operating Partnership redeemed the remaining \$225 million of 6.25% senior notes due 2013 and on September 4, 2012 we repaid our approximately \$23 million mortgage loan secured by our Sumner Square property located in Washington, DC, which was scheduled to mature on September 1, 2013. After these repayments we have secured and unsecured debt maturities in 2013 aggregating approximately \$646 million, of which our share is approximately \$592 million, which will need to be redeemed, repaid or refinanced. The completion of our properties under construction through late 2015 has remaining costs to fund of \$720 million and is expected to be fully funded by cash and available draws from construction loans. We believe that our liquidity, including available cash as of November 2, 2012 of approximately \$1.0 billion, and the approximately \$740 million available under our Operating Partnership's Unsecured Line of Credit, provide sufficient capacity to meet our debt obligations and fund our remaining equity capital requirements on existing development projects and pursue attractive additional investment opportunities. Given the relatively low interest rates currently available to us in the debt markets, we may seek to enhance our liquidity in the future, which may result in us carrying additional cash and cash equivalents pending our Operating Partnership's use of the proceeds. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, purchase unsecured senior notes and unsecured exchangeable senior notes for cash in

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open market purchases or privately negotiated transactions, or both. We will evaluate any such potential transactions in light of then-existing market conditions, taking into account the trading prices of the notes, our current liquidity and prospects for future access to capital.

REIT Tax Distribution Considerations

Dividend

As a REIT we are subject to a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our annual taxable income. Our policy is to distribute at least 100% of our taxable income to avoid paying federal tax. On November 8, 2012, our Board of Directors increased our quarterly dividend from \$0.55 per common share to \$0.65 per common share. Refer to Note 14 of the Consolidated Financial Statements for additional detail regarding our quarterly dividend. Our Board of Directors will continue to evaluate our dividend rate in light of our actual and projected taxable income, liquidity requirements and other circumstances, and there can be no assurance that the future dividends declared by our Board of Directors will not differ materially.

Sales

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

Cash Flow Summary

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

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Cash and cash equivalents were approximately \$1.2 billion and \$1.1 billion at September 30, 2012 and 2011, respectively, representing an increase of approximately \$0.1 billion. The following table sets forth changes in cash flows:

	Nine months ended September 30,		Increase (Decrease)
	2012	2011 (in thousands)	
Net cash provided by operating activities	\$ 463,686	\$ 442,859	\$ 20,827
Net cash used in investing activities	(1,020,112)	(30,402)	(989,710)
Net cash provided by (used in) financing activities	(43,567)	171,619	(215,186)

Our principal source of cash flow is related to the operation of our office properties. The average term of our in-place tenant leases, including our unconsolidated joint ventures, is approximately 7.1 years with occupancy rates historically in the range of 91% to 94%. Our properties generate a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements. In addition, over the past several years, we have raised capital through the sale of some of our properties, secured and unsecured borrowings and equity offerings.

Cash is used in investing activities to fund acquisitions, development, net investments in unconsolidated joint ventures and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings to enhance or maintain their market position. Cash used in investing activities for the nine months ended September 30, 2012 and 2011 consisted primarily of funding our development projects and the acquisition of Bay Colony Corporate Center, 100 Federal Street and 680 Folsom Street, as detailed below:

	Nine months ended September 30,	
	2012	2011 (in thousands)
Acquisitions of real estate	\$ (688,073)	\$ (41,100)
Construction in progress	(238,627)	(205,580)
Building and other capital improvements	(32,159)	(29,406)
Tenant improvements	(108,100)	(50,400)
Proceeds from the sale of real estate	61,963	
Proceeds from mortgage loan released from escrow		267,500
Proceeds from land transaction		43,887
Deposits on real estate	(15,000)	10,000
Issuance of notes receivable, net	(1,764)	(6,375)
Capital contributions to unconsolidated joint ventures	(367)	(17,867)
Capital distributions from unconsolidated joint ventures	3,057	
Investments in securities, net	(1,042)	(1,061)
Net cash used in investing activities	\$ (1,020,112)	\$ (30,402)

Cash used in investing activities changed primarily due to the following:

On February 1, 2011, we completed the acquisition of Bay Colony Corporate Center in Waltham, Massachusetts for an aggregate purchase price of approximately \$185.0 million. The purchase price consisted of approximately \$41.1 million of cash and the assumption of approximately \$143.9 million of indebtedness. In connection with this transaction, we deposited \$10.0 million in escrow, which was returned to us at closing.

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On March 1, 2012, we acquired 453 Ravendale Drive located in Mountain View, California for a purchase price of approximately \$6.7 million in cash.

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On March 13, 2012, we acquired 100 Federal Street in Boston, Massachusetts for an aggregate investment of approximately \$615.0 million in cash.

On August 29, 2012, we acquired the development project located at 680 Folsom Street in San Francisco, California. The consideration paid by us to the seller consisted of approximately \$62.2 million in cash.

Construction in progress for the nine months ended September 30, 2011 includes ongoing expenditures associated with our Atlantic Wharf Office, 2200 Pennsylvania Avenue, the Residences on The Avenue, 510 Madison Avenue and The Lofts at Atlantic Wharf developments, which were fully or partially placed in-service during the nine months ended September 30, 2011. In addition, for the nine months ended September 30, 2011, we also incurred costs associated with the continued development and redevelopment of 250 West 55th Street, Seventeen Cambridge Center and One Patriots Park. Construction in progress for the nine months ended September 30, 2012 includes expenditures associated with our 510 Madison Avenue and One Patriots Park developments, which were fully placed in-service during the nine months ended September 30, 2012. In addition, we incurred costs associated with the continued development and redevelopment of Two Patriots Park, Seventeen Cambridge Center, The Avant at Reston Town Center, the Cambridge Center Connector, 250 West 55th Street and 680 Folsom Street. The completion of our ongoing developments, including our share of our unconsolidated joint venture developments, through 2015 is expected to be fully funded by cash and available draws from construction loans. We estimate our future funding requirement to complete our developments, which includes our share of our unconsolidated joint venture developments, to be approximately \$734 million.

Tenant improvement costs increased by approximately \$57.7 million due to the start of large tenant projects in 2012.

On May 17, 2012, we completed the sale of our Bedford Business Park properties located in Bedford, Massachusetts for approximately \$62.8 million in cash. Net cash proceeds totaled approximately \$62.0 million.

Proceeds from mortgage loan released from escrow related to the release of the mortgage loan for 510 Madison Avenue, located in New York City, which had been secured by cash deposits.

Proceeds from land transaction relates to the portion of the payment received by us for our 75 Ames Street land parcel from a third-party which we estimate will relate to the ultimate conveyance of a condominium interest to the third-party upon the anticipated completion of the development of the property and does not include the portion attributable to rental of the land during the period of development.

Cash used by financing activities for the nine months ended September 30, 2012 totaled approximately \$43.6 million. This consisted primarily of the repurchase/redemption of all of our Operating Partnership's outstanding 2.875% exchangeable senior notes due 2037, the redemption of our Operating Partnership's outstanding 6.25% senior notes due 2013, the payments of dividends and distributions to our shareholders and the unitholders of our Operating Partnership and the repayment of mortgage notes payable, partially offset by the issuance of \$1.0 billion of our Operating Partnership's 3.850% senior notes due 2023 and the net proceeds from the issuance of shares of our common stock under our ATM stock offering program. Future debt payments are discussed below under the heading Capitalization-Debt Financing.

Capitalization

At September 30, 2012, our total consolidated debt was approximately \$8.7 billion. The GAAP weighted-average annual interest rate on our consolidated indebtedness was 5.19% (with a coupon/stated rate of 4.86%) and the weighted-average maturity was approximately 6.0 years.

Consolidated debt to total consolidated market capitalization ratio, defined as total consolidated debt as a percentage of the value of our outstanding equity securities plus our total consolidated debt, is a measure of

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leverage commonly used by analysts in the REIT sector. Our total consolidated market capitalization was approximately \$27.5 billion at September 30, 2012. Our total consolidated market capitalization was calculated using the September 30, 2012 closing stock price of \$110.61 per common share and the following: (1) 150,856,237 shares of our common stock, (2) 16,501,441 outstanding common units of partnership interest in our Operating Partnership (excluding common units held by us), (3) an aggregate of 1,307,083 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in our Operating Partnership, (4) an aggregate of 1,600,324 common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, (5) 1,221,527 Series Four Preferred Units of partnership interest in our Operating Partnership multiplied by the fixed liquidation preference of \$50 per unit and (6) our consolidated debt totaling approximately \$8.7 billion. The calculation of total consolidated market capitalization does not include 400,000 2011 OPP Units and 400,000 2012 OPP Units because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved. Our total consolidated debt, which excludes debt collateralized by our unconsolidated joint ventures, at September 30, 2012, represented approximately 31.41% of our total consolidated market capitalization. This percentage will fluctuate with changes in the market value of our common stock and does not necessarily reflect our capacity to incur additional debt to finance our activities or our ability to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the consolidated debt to total consolidated market capitalization ratio may provide investors with an alternate indication of leverage, so long as it is evaluated along with other financial ratios and the various components of our outstanding indebtedness.

For a discussion of our unconsolidated joint venture indebtedness, see *Liquidity and Capital Resources Capitalization Off-Balance Sheet Arrangements Joint Venture Indebtedness* within *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Debt Financing

As of September 30, 2012, we had approximately \$8.7 billion of outstanding consolidated indebtedness, representing approximately 31.41% of our total consolidated market capitalization as calculated above consisting of approximately (1) \$4.639 billion (net of discount) in publicly traded unsecured senior notes (excluding exchangeable senior notes) having a weighted-average interest rate of 4.74% per annum and maturities in 2015, 2018, 2019, 2020, 2021 and 2023; (2) \$443.9 million (net of adjustment for the equity component allocation) of exchangeable senior notes having a GAAP interest rate of 5.958% per annum (an effective rate of 3.787% per annum, excluding the effect of the adjustment for the equity component allocation), an initial optional redemption date in 2013 and maturity in 2036; (3) \$719.0 million (net of discount and the adjustment for the equity component allocation) of exchangeable senior notes having a GAAP interest rate of 6.555% per annum (an effective rate of 4.037%, excluding the effect of the adjustment for the equity component allocation) and maturing in 2014; and (4) \$2.8 billion of property-specific mortgage debt having a GAAP weighted-average interest rate of 5.45% per annum and weighted-average term of 5.6 years. The table below summarizes our mortgage notes payable, our unsecured senior notes and our Unsecured Line of Credit at September 30, 2012 and September 30, 2011:

	2012	2011
	(Dollars in Thousands)	
Debt Summary:		
Balance		
Fixed rate mortgage notes payable	\$ 2,848,686	\$ 3,129,034
Variable rate mortgage notes payable		50,000
Unsecured senior notes, net of discount	4,639,217	3,016,986
Unsecured exchangeable senior notes, net of discount and adjustment for the equity component allocation	1,162,955	1,754,343
Unsecured Line of Credit		
Total	\$ 8,650,858	\$ 7,950,363

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	2012	2011
	(Dollars in Thousands)	
Percent of total debt:		
Fixed rate	100.00%	99.37%
Variable rate		0.63%
Total	100.00%	100.00%
GAAP Weighted-average interest rate at end of period:		
Fixed rate	5.19%	5.55%
Variable rate		2.78%
Total	5.19%	5.53%
Coupon/Stated Weighted-average interest rate at end of period:		
Fixed rate	4.86%	5.12%
Variable rate		2.40%
Total	4.86%	5.10%

Unsecured Line of Credit

On June 24, 2011, our Operating Partnership amended and restated the revolving credit agreement governing our Operating Partnership's Unsecured Line of Credit, which (1) reduced the total commitment from \$1.0 billion to \$750.0 million, (2) extended the maturity date from August 3, 2011 to June 24, 2014, with a provision for a one-year extension at the Operating Partnership's option, subject to certain conditions and the payment of an extension fee equal to 0.20% of the total commitment then in effect, and (3) increased the per annum variable interest rates available, which resulted in an increase of the per annum variable interest rate on outstanding balances from Eurodollar plus 0.475% per annum to Eurodollar plus 1.225% per annum. Under the amended Unsecured Line of Credit, the Operating Partnership may increase the total commitment to \$1.0 billion, subject to syndication of the increase. In addition, a facility fee currently equal to an aggregate of 0.225% per annum of the total commitment is payable in equal quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in the Operating Partnership's unsecured debt ratings. The amended Unsecured Line of Credit also contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Operating Partnership at a reduced interest rate. Our ability to borrow under our Unsecured Line of Credit is subject to our compliance with a number of customary financial and other covenants on an ongoing basis, including:

a leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within one year;

a secured debt leverage ratio not to exceed 55%;

a fixed charge coverage ratio of at least 1.40;

an unsecured leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within one year;

a minimum net worth requirement of \$3.5 billion;

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an unsecured debt interest coverage ratio of at least 1.75; and

limitations on permitted investments.

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

As of September 30, 2012, we had no borrowings and outstanding letters of credit totaling approximately \$9.6 million outstanding under the Unsecured Line of Credit, with the ability to borrow approximately

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\$740.4 million. As of November 2, 2012, we had no borrowings and outstanding letters of credit totaling approximately \$9.6 million outstanding under the Unsecured Line of Credit, with the ability to borrow approximately \$740.4 million.

Unsecured Senior Notes

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

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
12 Year Unsecured Senior Notes	5.625%	5.693%	\$ 300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
10 Year Unsecured Senior Notes	5.875%	5.967%	700,000	October 15, 2019
10 Year Unsecured Senior Notes	5.625%	5.708%	700,000	November 15, 2020
10 Year Unsecured Senior Notes	4.125%	4.289%	850,000	May 15, 2021
7 Year Unsecured Senior Notes	3.700%	3.853%	850,000	November 15, 2018
11 Year Unsecured Senior Notes	3.850%	3.954%	1,000,000	February 1, 2023
Total principal			4,650,000	
Net unamortized discount			(10,783)	
Total			\$ 4,639,217	

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

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

Our unsecured senior notes are redeemable at our option, in whole or in part, at a redemption price equal to the greater of (i) 100% of their principal amount or (ii) the sum of the present value of the remaining scheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus 35 basis points (or 25 basis points in the case of the \$250 million of notes that mature on June 1, 2015, 40 basis points in the case of the \$700 million of notes that mature on October 15, 2019 and 30 basis points in the case of the \$700 million and \$850 million of notes that mature on November 15, 2020 and May 15, 2021, respectively), in each case plus accrued and unpaid interest to the redemption date. The indenture under which our unsecured senior notes were issued contains restrictions on incurring debt and using our assets as security in other financing transactions and other customary financial and other covenants, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of 1.5, and (4) unencumbered asset value to be no less than 150% of our unsecured debt. As of September 30, 2012, we believe we were in compliance with each of these financial restrictions and requirements.

Table of Contents*Unsecured Exchangeable Senior Notes*

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

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

- (1) Yield on issuance date including the effects of discounts on the notes but excluding the effects of the adjustment for the equity component allocation.
- (2) The initial exchange rate is 8.5051 shares per \$1,000 principal amount of the notes (or an initial exchange price of approximately \$117.58 per share of our common stock). In addition, we entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions were expected to have the effect of increasing the effective exchange price to us of the notes from \$117.58 to approximately \$137.17 per share (subject to adjustment), representing an overall effective premium of approximately 40% over the closing price on August 13, 2008 of \$97.98 per share of our common stock. The net cost of the capped call transactions was approximately \$44.4 million. As of September 30, 2012, the effective exchange price was \$134.77 per share.
- (3) In connection with the special dividend of \$5.98 per share of common stock declared on December 17, 2007, the exchange rate was adjusted from 9.3900 to 10.0066 shares per \$1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately \$99.93 per share of our common stock.
- (4) Holders may require our Operating Partnership to repurchase the notes for cash on May 18, 2013 and on May 15 of 2016, 2021, 2026 and 2031 and at any time prior to their maturity upon a fundamental change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurchase date.

Table of Contents*Mortgage Notes Payable*

The following represents the outstanding principal balances due under the mortgage notes payable at September 30, 2012:

Properties	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Historical Fair Value Adjustment (Dollars in thousands)	Carrying Amount	Maturity Date
599 Lexington Avenue	5.57%	5.41%	\$ 750,000	\$	\$ 750,000(2)(3)	March 1, 2017
601 Lexington Avenue	4.75%	4.79%	725,000		725,000	April 10, 2022
John Hancock Tower	5.68%	5.05%	640,500	16,953	657,453(1)(3)(4)	January 6, 2017
Embarcadero Center Four	6.10%	7.02%	366,498		366,498(5)	December 1, 2016
505 9 th Street	5.73%	5.87%	124,222		124,222(6)	November 1, 2017
New Dominion Tech Park, Bldg. Two	5.55%	5.58%	63,000		63,000(3)	October 1, 2014
140 Kendrick Street	7.51%	5.25%	48,182	669	48,851(1)	July 1, 2013
New Dominion Tech Park, Bldg. One	7.69%	7.84%	45,418		45,418	January 15, 2021
Kingstowne Two and Retail	5.99%	5.61%	35,211	445	35,656(1)	January 1, 2016
Kingstowne One	5.96%	5.68%	17,230	45	17,275(1)	May 5, 2013
University Place	6.94%	6.99%	15,313		15,313	August 1, 2021
680 Folsom Street	3.93%	3.98%			(3)(7)	May 30, 2015
Total			\$ 2,830,574	\$ 18,112	\$ 2,848,686	

- (1) GAAP interest rate differs from the stated interest rate due to the inclusion of the amortization of financing charges, effects of hedging transactions and adjustments required to reflect loans at their fair values upon acquisition. All adjustments to reflect loans at their fair value upon acquisition are noted above.
- (2) On December 19, 2006, we terminated the forward-starting interest rate swap contracts related to this financing and received approximately \$10.9 million, which amount is reducing our GAAP interest expense for this mortgage over the term of the financing, resulting in an effective interest rate of 5.41% per annum for the financing. The stated interest rate is 5.57% per annum.
- (3) The mortgage loan requires interest only payments with a balloon payment due at maturity.
- (4) In connection with the mortgage financing we have agreed to guarantee approximately \$0.8 million related to our obligation to provide funds for certain tenant re-leasing costs.
- (5) On November 13, 2008, we closed on an eight-year, \$375.0 million mortgage loan collateralized by this property. The mortgage loan bears interest at a fixed rate of 6.10% per annum. Under our interest rate hedging program, we are reclassifying into earnings over the eight-year term of the loan as an increase in interest expense approximately \$26.4 million (approximately \$3.3 million per year) of the amounts recorded on our Consolidated Balance Sheets within Accumulated Other Comprehensive Loss resulting in an effective interest rate of 7.02% per annum.
- (6) This property is owned by a consolidated joint venture in which we have a 50% interest.
- (7) The construction financing bears interest at a variable rate equal to LIBOR plus 3.70% per annum and matures on May 30, 2015 with two, one-year extension options, subject to certain conditions. In addition, we assumed an interest rate derivative which caps the one-month LIBOR index rate at a maximum of 3.00% per annum on a notional amount up to \$170.0 million and with an expiration date of May 30, 2015.

Table of Contents*Off-Balance Sheet Arrangements Joint Venture Indebtedness*

We have investments in twelve unconsolidated joint ventures (including our investment in the Value-Added Fund) with our effective ownership interests ranging from 25% to 60%. Nine of these ventures have mortgage indebtedness. We exercise significant influence over, but do not control, these entities and therefore they are presently accounted for using the equity method of accounting. See also Note 4 to the Consolidated Financial Statements. At September 30, 2012, the aggregate carrying amount of debt, including both our and our partners' share, incurred by these ventures was approximately \$3.0 billion (of which our proportionate share is approximately \$1.4 billion). The table below summarizes the outstanding debt of these joint venture properties at September 30, 2012. In addition to other guarantees specifically noted in the table, we have agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of the loans.

Properties	Venture Ownership %	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Historical Fair Value Adjustment	Carrying Amount	Maturity Date
(Dollars in thousands)							
General Motors Building:							
Secured 1st Mortgage	60%	5.95%	6.50%	\$ 1,300,000	\$ (34,427)	\$ 1,265,573(1)(2)(3)	October 7, 2017
Mezzanine Loan	60%	6.02%	8.00%	306,000	(28,204)	277,796(1)(2)(4)	October 7, 2017
Partner Loans	60%	11.00%	11.00%	450,000		450,000(5)	June 9, 2017
125 West 55 th Street	60%	6.09%	6.15%	200,689		200,689	March 10, 2020
540 Madison Avenue	60%	5.20%	6.75%	118,300	(1,389)	116,911(1)(6)	July 11, 2013
Metropolitan Square	51%	5.75%	5.81%	175,000		175,000	May 5, 2020
Market Square North	50%	4.85%	4.91%	130,000		130,000	October 1, 2020
Annapolis Junction	50%	1.99%	2.15%	41,971		41,971(7)	March 31, 2018
Annapolis Junction Building Six	50%	1.88%	2.55%	13,608		13,608(2)(8)	November 17, 2013
Mountain View Tech. Park:							
Secured 1 st Mortgage	39.5%	2.75%	3.33%	20,000		20,000(2)(9)(10)	November 22, 2014
BPLP loan	39.5%	10.00%	10.00%	3,904		3,904(2)(11)	November 22, 2014
Mountain View Research Park:							
Secured 1 st Mortgage	39.5%	2.25%	2.45%	90,641		90,641(9)(12)	May 31, 2014
BPLP loan	39.5%	10.00%	10.00%	8,302		8,302(2)(13)	May 31, 2014
500 North Capitol Street	30%	1.88%	2.56%	74,967		74,967(2)(14)	October 14, 2014
901 New York Avenue	25%	5.19%	5.27%	157,536		157,536	January 1, 2015
Total				\$ 3,090,918	\$ (64,020)	\$ 3,026,898	

- GAAP interest rate differs from the stated interest rate due to the inclusion of the amortization of financing charges, effects of hedging transactions and adjustments required to reflect loans at their fair values upon acquisition. All adjustments to reflect loans at their fair value upon acquisition are noted above.
- The loan requires interest only payments with a balloon payment due at maturity.
- In connection with the assumption of the loan, we guaranteed the joint venture's obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of September 30, 2012, the maximum funding obligation under the guarantee was approximately \$9.8 million. We earn a fee from the joint venture for providing the guarantee and have an agreement with our partners to reimburse the joint venture for their share of any payments made under the guarantee.
- Principal amount does not include the assumed mezzanine loan with an aggregate principal amount of \$294.0 million and a stated rate of 6.02% per annum, as the venture acquired the lenders' interest in this loan for a purchase price of approximately \$263.1 million in cash.

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- (5) In connection with the capitalization of the joint venture, loans totaling \$450.0 million were funded by the venture's partners on a pro-rata basis. Our share of the partner loans totaling \$270.0 million has been reflected in Related Party Note Receivable on our Consolidated Balance Sheets.
- (6) In connection with the assumption of the loan, we guaranteed the joint venture's obligation to fund tenant improvements and leasing commissions.
- (7) Mortgage loan bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on March 31, 2018 with one, three-year extension option, subject to certain conditions.
- (8) The construction financing bears interest at a variable rate equal to LIBOR plus 1.65% per annum and matures on November 17, 2013 with two, one-year extension options, subject to certain conditions.
- (9) This property is owned by the Value-Added Fund.
- (10) The mortgage loan bears interest at a variable rate equal to LIBOR plus 2.50% per annum.
- (11) In conjunction with the mortgage loan modification our Operating Partnership agreed to lend up to \$6.0 million to the Value-Added Fund, of which approximately \$3.9 million had been advanced as of September 30, 2012. The loan from our Operating Partnership bears interest at a fixed rate of 10.0% per annum and matures on November 22, 2014. This loan has been reflected in Related Party Notes Receivable on our Consolidated Balance Sheets.
- (12) The mortgage loan bears interest at a variable rate equal to LIBOR plus 2.00% per annum.
- (13) In conjunction with the mortgage loan modification, our Operating Partnership agreed to lend up to \$12.0 million to our Value-Added Fund, of which approximately \$8.3 million has been advanced as of September 30, 2012. The loan from our Operating Partnership bears interest at a fixed rate of 10.0% per annum and matures on May 31, 2014. This loan has been reflected in Related Party Notes Receivable on our Consolidated Balance Sheets.
- (14) The construction financing bears interest at a variable rate equal to LIBOR plus 1.65% per annum and matures on October 14, 2014 with two, one-year extension options, subject to certain conditions.

State and Local Tax Matters

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

Insurance

We carry insurance coverage on our properties of types and in amounts and with deductibles that we believe are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, "TRIA") was enacted in November 2002 to require regulated insurers to make available coverage for "certified" acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA"). Currently, the per occurrence limits of our portfolio property insurance program are \$1.0 billion, including coverage for acts of terrorism certified under TRIA other than nuclear, biological, chemical or radiological terrorism ("Terrorism Coverage"). We also carry \$250 million of Terrorism Coverage for 601 Lexington Avenue, New York, New York ("601 Lexington Avenue") in excess of the \$1.0 billion of Terrorism Coverage in our property insurance program which is provided by IXP, LLC ("IXP") as a direct insurer. Certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York ("767 Fifth Avenue"), are currently insured in separate insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are \$1.625 billion, including Terrorism Coverage, with \$1.375 billion of Terrorism

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Coverage in excess of \$250 million being provided by NYXP, LLC, (NYXP) as a direct insurer. We also currently carry nuclear, biological, chemical and radiological terrorism insurance coverage for acts of terrorism certified under TRIA (NBCR Coverage), which is provided by IXP, as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding the properties owned by our Value-Added Fund and certain other properties owned in joint ventures with third parties or which we manage. The per occurrence limit for NBCR Coverage is \$1 billion. Under TRIA, after the payment of the required deductible and coinsurance, the additional Terrorism Coverage provided by IXP for 601 Lexington Avenue, the NBCR Coverage provided by IXP and the Terrorism Coverage provided by NYXP are backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is \$100 million and the coinsurance is 15%. Under TRIPRA, if the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. We may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in our portfolio or for any other reason. We intend to continue to monitor the scope, nature and cost of available terrorism insurance and maintain terrorism insurance in amounts and on terms that are commercially reasonable.

We also currently carry earthquake insurance on our properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that we believe are commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, we currently carry earthquake insurance which covers our San Francisco region with a \$120 million per occurrence limit and a \$120 million annual aggregate limit, \$20 million of which is provided by IXP, as a direct insurer. In addition, the builders risk policy maintained for the development of 680 Folsom Street in San Francisco includes a \$20 million per occurrence and annual aggregate limit of earthquake coverage. The amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact our ability to finance properties subject to earthquake risk. We may discontinue earthquake insurance on some or all of our properties in the future if the premiums exceed our estimation of the value of the coverage.

IXP, a captive insurance company which is a wholly-owned subsidiary, acts as a direct insurer with respect to a portion of our earthquake insurance coverage for our Greater San Francisco properties, the additional Terrorism Coverage for 601 Lexington Avenue and our NBCR Coverage. The additional Terrorism Coverage provided by IXP for 601 Lexington Avenue only applies to losses which exceed the program trigger under TRIA. NYXP, a captive insurance company which is a wholly-owned subsidiary, acts as a direct insurer with respect to a portion of our Terrorism Coverage for 767 Fifth Avenue. Currently, NYXP only insures losses which exceed the program trigger under TRIA and NYXP reinsures with a third-party insurance company any coinsurance payable under TRIA. Insofar as we own IXP and NYXP, we are responsible for their liquidity and capital resources, and the accounts of IXP and NYXP are part of our consolidated financial statements. In particular, if a loss occurs which is covered by our NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. IXP and NYXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out and their insurance policies are maintained after the payout by the Federal Government. If we experience a loss and IXP or NYXP are required to pay under their insurance policies, we would ultimately record the loss to the extent of the required payment. Therefore, insurance coverage provided by IXP and NYXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance. In addition, our Operating Partnership has issued a guarantee to cover liabilities of IXP in the amount of \$20.0 million.

The mortgages on our properties typically contain requirements concerning the financial ratings of the insurers who provide policies covering the property. We provide the lenders on a regular basis with the identity of the insurance companies in our insurance programs. The ratings of some of our insurers are below the rating requirements in some of our loan agreements and the lenders for these loans could attempt to claim an event of

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default has occurred under the loan. We believe we could obtain insurance with insurers which satisfy the rating requirements. Additionally, in the future our ability to obtain debt financing secured by individual properties, or the terms of such financing, may be adversely affected if lenders generally insist on ratings for insurers or amounts of insurance which are difficult to obtain or which result in a commercially unreasonable premium. There can be no assurance that a deficiency in the financial ratings of one or more of our insurers will not have a material adverse effect on us.

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

Funds from Operations

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

FFO should not be considered as an alternative to net income attributable to Boston Properties, Inc. (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income attributable to Boston Properties, Inc. and considered in addition to cash flows in accordance with GAAP, as presented in our Consolidated Financial Statements.

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The following table presents a reconciliation of net income attributable to Boston Properties, Inc. to FFO for the three months ended September 30, 2012 and 2011:

	Three months ended September 30,	
	2012	2011
	(in thousands)	
Net income attributable to Boston Properties, Inc.	\$ 57,769	\$ 70,542
Add:		
Noncontrolling interest in discontinued operations common units of the Operating Partnership		2
Noncontrolling interest common units of the Operating Partnership	7,002	8,989
Noncontrolling interest redeemable preferred units of the Operating Partnership	874	832
Noncontrolling interests in property partnerships	458	86
Less:		
Income from discontinued operations		20
Income from continuing operations	66,103	80,431
Add:		
Real estate depreciation and amortization(1)	132,693	134,777
Income from discontinued operations		20
Less:		
Gain on sale of real estate included within income from unconsolidated joint ventures	248	
Noncontrolling interests in property partnerships share of funds from operations	923	549
Noncontrolling interest redeemable preferred units of the Operating Partnership	874	832
Funds from operations attributable to the Operating Partnership	\$ 196,751	\$ 213,847
Less:		
Noncontrolling interest common units of the Operating Partnership s share of funds from operations	20,625	23,573
Funds from Operations attributable to Boston Properties, Inc.	\$ 176,126	\$ 190,274
Boston Properties, Inc. s percentage share of Funds from Operations basic	89.52%	88.98%
Weighted-average shares outstanding basic	150,801	147,006

- (1) Real estate depreciation and amortization consists of depreciation and amortization from the Consolidated Statements of Operations of \$111,360 and \$108,674, our share of unconsolidated joint venture real estate depreciation and amortization of \$21,664 and \$25,633 and depreciation and amortization from discontinued operations of \$0 and \$821, less corporate related depreciation and amortization of \$331 and \$351 for the three months ended September 30, 2012 and 2011, respectively.

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Reconciliation to Diluted Funds from Operations:

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Income (Numerator) (in thousands)	Shares (Denominator)	Income (Numerator) (in thousands)	Shares (Denominator)
Basic FFO	\$ 196,751	168,461	\$ 213,847	165,219
Effect of Dilutive Securities				
Convertible Preferred Units	764	1,327	832	1,461
Stock Based Compensation and Exchangeable Senior Notes		1,182		616
Diluted FFO	\$ 197,515	170,970	\$ 214,679	167,296
Less:				
Noncontrolling interest common units of the Operating Partnership's share of diluted FFO	20,401	17,660	23,371	18,213
Boston Properties, Inc.'s share of Diluted FFO(1)	\$ 177,114	153,310	\$ 191,308	149,083

(1) Our share of diluted Funds from Operations was 89.67% and 89.11% for the quarter ended September 30, 2012 and 2011, respectively.

Contractual Obligations

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

During the third quarter of 2012, we paid approximately \$53.3 million to fund tenant-related obligations, including tenant improvements and leasing commissions, and incurred approximately \$55.0 million of new tenant-related obligations associated with approximately 951,000 square feet of second generation leases, or approximately \$58 per square foot. In addition, we signed leases for approximately 62,000 square feet at our development properties. The tenant-related obligations for the development properties are included within the projects' Estimated Total Investment referred to in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. In the aggregate, during the third quarter of 2012, we signed leases for approximately 1,013,000 square feet of space and incurred aggregate tenant-related obligations of approximately \$61.1 million, or approximately \$60 per square foot.

ITEM 3 Quantitative and Qualitative Disclosures about Market Risk.

As of September 30, 2012, approximately \$8.7 billion of our consolidated borrowings bore interest at fixed rates and none of our consolidated borrowings bore interest at variable rates. The fair value of these instruments is affected by changes in market interest rates. The table below does not include our unconsolidated joint venture debt. For a discussion concerning our unconsolidated joint venture debt, refer to Note 4 to the Consolidated

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Financial Statements and *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations* *Capitalization* *Off-Balance Sheet Arrangements* *Joint Venture Indebtedness.*

	2012	2013	2014	2015	2016	2017+	Total	Estimated Fair Value
(dollars in thousands)								
Secured debt								
Fixed Rate	\$ 4,118	\$ 84,584	\$ 91,719	\$ 30,339	\$ 401,855	\$ 2,236,071	\$ 2,848,686	\$ 2,968,017
Average Interest Rate	6.27%	5.56%	5.66%	5.87%	6.84%	5.18%	5.45%	
Variable Rate								
Unsecured debt								
Fixed Rate	\$	\$	\$	\$ 549,452		\$ 4,089,765	\$ 4,639,217	\$ 5,163,293
Average Interest Rate				5.47%		4.65%	4.74%	
Variable Rate								
Unsecured exchangeable debt								
Fixed Rate(1)	\$	\$ 450,000	\$ 745,488	\$	\$	\$	\$ 1,195,488	\$ 1,325,431
Adjustment for the equity component allocation	(7,043)	(23,052)	(2,438)				(32,533)	
Total Fixed Rate	(7,043)	426,948	743,050				1,162,955	
Average Interest Rate		5.96%	6.56%				6.33%	
Variable Rate								
Total Debt	\$ (2,925)	\$ 511,532	\$ 834,769	\$ 579,791	\$ 401,855	\$ 6,325,836	\$ 8,650,858	\$ 9,456,741

(1) Amounts are included in the year in which the first optional redemption date occurs (or, in the case of the exchangeable notes due 2014, the year of maturity).

At September 30, 2012, the weighted-average coupon/stated rates on all of our fixed and variable rate debt were 4.86% per annum and 0.00% per annum, respectively. The weighted-average coupon/stated rates for our unsecured debt and unsecured exchangeable debt were 4.66% per annum and 3.80% per annum, respectively.

At September 30, 2012, we had no outstanding variable rate debt.

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

ITEM 4 Controls and Procedures.

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

(b) Changes in Internal Control Over Financial Reporting. No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the third quarter of our fiscal year ending December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1 Legal Proceedings.**

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

ITEM 1A Risk Factors.

Except to the extent updated below or previously updated or to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations*), there were no material changes to the risk factors disclosed in Part I, *Item 1A. Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2011.

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

(a) During the three months ended September 30, 2012, we issued an aggregate of 139,853 common shares in exchange for 139,853 common units of limited partnership held by certain limited partners of our Operating Partnership. Of these shares, 57,573 (of which 45,604 shares had been issued in exchange for common units issued by our Operating Partnership upon conversion of 34,751 Series Two Preferred Units) were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. We relied on the exemption under Section 4(2) based upon factual representations received from the limited partners who received the common shares.

(b) Not applicable.

(c) Issuer Purchases of Equity Securities.

Period	(a) Total Number of Shares of Common Stock Purchased	(b) Average Price Paid per Common Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased
July 1, 2012-July 31, 2012			N/A	N/A
August 1, 2012-August 31, 2012	2,080(1)(3)	\$ 0.01	N/A	N/A
September 1, 2012-September 30, 2012	10,452(2)(3)	102.93	N/A	N/A
Total	12,532	\$ 85.84	N/A	N/A

- (1) Represents shares of restricted Common Stock that were repurchased in connection with the termination of a certain person's employment with the Company.
- (2) Includes 9,406 shares of Common Stock surrendered by employees to the Company to satisfy such employees' tax withholding obligations in connection with the vesting of restricted Common Stock and 1,046 shares of restricted Common Stock that were repurchased in connection with the termination of a certain person's employment with the Company.
- (3) Under the terms of the applicable restricted stock agreements, the shares of restricted Common Stock were repurchased by the Company at a price of \$0.01 per share, which was the amount originally paid by such employees for the shares.

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ITEM 3 Defaults Upon Senior Securities.

None.

ITEM 4 Mine Safety Disclosures.

None.

ITEM 5 Other Information.

(a) None.

(b) None.

ITEM 6 Exhibits.

(a) Exhibits

of Limited Partnership of Boston Properties Limited Partnership.

ss Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, and (iv) the Consolidated Cash Flows Statement. The information presented in this filing is prepared in accordance with the Securities Exchange Act of 1934.

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SIGNATURES

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

BOSTON PROPERTIES, INC.

November 8, 2012

/s/ MICHAEL E. LABELLE
Michael E. LaBelle
Chief Financial Officer
(duly authorized officer and
principal financial officer)