BOSTON PROPERTIES INC
Form 10-Q
May 10, 2006
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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 March 31, 2006

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

Commission File Number 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its Charter)

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

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

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

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

Large accelerated filer x Accelerated filer ¨Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, par value $.01 per share	**114,152,792**
(Class)	**(Outstanding on May 5, 2006)**

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended March 31, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1 ***Financial Statements.***

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except for share and par value amounts)

	March 31, 2006	December 31, 2005
ASSETS		
Real estate, at cost	$ 8,864,907	$ 8,724,954
Construction in process	107,051	177,576
Land held for future development	189,024	248,645
Less: accumulated depreciation	(1,320,712)	(1,265,073)
Total real estate	7,840,270	7,886,102
Cash and cash equivalents	32,214	261,496
Cash held in escrows	23,715	25,618
Tenant and other receivables (net of allowance for doubtful accounts of $2,301 and $2,519, respectively)	41,458	52,668
Accrued rental income (net of allowance of $1,060 and $2,638, respectively)	316,048	302,356
Deferred charges, net	246,214	242,660
Prepaid expenses and other assets	91,646	41,261
Investments in unconsolidated joint ventures	98,836	90,207
Total assets	$ 8,690,401	$ 8,902,368
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 3,185,550	$ 3,297,192
Unsecured senior notes (net of discount of $3,837 and $3,938, respectively)	1,471,163	1,471,062
Unsecured line of credit	40,000	58,000
Accounts payable and accrued expenses	86,938	109,823
Dividends and distributions payable	95,344	107,643
Accrued interest payable	39,269	47,911
Other liabilities	98,296	154,123
Total liabilities	5,016,560	5,245,754
Commitments and contingencies		
Minority interests	735,185	739,268
Stockholders' equity:		
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, 112,892,557 and 112,621,162 issued and 112,813,657 and 112,542,262 outstanding in 2006 and 2005, respectively	1,128	1,125

Additional paid-in capital	2,759,580	2,745,719
Earnings in excess of dividends	173,129	182,105
Treasury common stock at cost, 78,900 shares in 2006 and 2005	(2,722)	(2,722)
Accumulated other comprehensive income (loss)	7,541	(8,881)
Total stockholders' equity	2,938,656	2,917,346
Total liabilities and stockholders' equity	$ 8,690,401	$ 8,902,368

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended March 31, 2006	2005
	(in thousands, except for per share amounts)	
Revenue		
Rental:		
Base rent	$ 276,398	$ 278,748
Recoveries from tenants	47,193	43,337
Parking and other	13,829	13,925
Total rental revenue	337,420	336,010
Hotel revenue	12,343	12,096
Development and management services	4,376	4,536
Interest and other	1,965	1,631
Total revenue	356,104	354,273
Expenses		
Operating:		
Rental	112,614	108,484
Hotel	11,477	10,809
General and administrative	14,642	14,813
Interest	74,817	79,354
Depreciation and amortization	66,847	67,796
Loss from early extinguishment of debt	467	
Total expenses	280,864	281,256
Income before minority interest in property partnership, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	75,240	73,017
Minority interest in property partnership	1,236	1,652
Income from unconsolidated joint ventures	1,290	1,335
Income before minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	77,766	76,004
Minority interest in Operating Partnership	(15,470)	(15,677)
Income before gains on sales of real estate and discontinued operations	62,296	60,327
Gains on sales of real estate, net of minority interest	5,441	1,208
Income before discontinued operations	67,737	61,535
Discontinued operations:		
Loss from discontinued operations, net of minority interest		(293)
Net income available to common shareholders	$ 67,737	$ 61,242
Basic earnings per common share:		

Income available to common shareholders before discontinued operations	$	0.60	$	0.56
Discontinued operations, net of minority interest				
Net income available to common shareholders	$	0.60	$	0.56
Weighted average number of common shares outstanding		112,509		110,187
Diluted earnings per common share:				
Income available to common shareholders before discontinued operations	$	0.59	$	0.55
Discontinued operations, net of minority interest				
Net income available to common shareholders	$	0.59	$	0.55
Weighted average number of common and common equivalent shares outstanding		115,157		112,364

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(Unaudited)

	Three months ended March 31,	
	2006	**2005**
	(in thousands)	
Net income available to common shareholders	$ 67,737	$ 61,242
Other comprehensive income:		
Effective portion of interest rate contracts	16,248	
Amortization of interest rate contracts	174	174
Other comprehensive income	16,422	174
Comprehensive income	$ 84,159	$ 61,416

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31, 2006	2005
	(in thousands)	
Cash flows from operating activities:		
Net income available to common shareholders	$ 67,737	$ 61,242
Adjustments to reconcile net income available to common shareholders to net cash provided by operating activities:		
Depreciation and amortization	66,847	68,162
Non-cash portion of interest expense	1,362	1,545
Non-cash compensation expense	2,548	2,305
Loss from early extinguishments of debt	467	
Minority interest in property partnership	(1,236)	(1,652)
Earnings in excess of distributions from unconsolidated joint ventures	(570)	(681)
Minority interest in Operating Partnership	16,502	15,856
Gains on sales of real estate	(6,473)	(1,445)
Change in assets and liabilities:		
Cash held in escrows	1,903	(858)
Tenant and other receivables, net	11,210	(6,011)
Accrued rental income, net	(13,692)	(20,799)
Prepaid expenses and other assets	(35,071)	(26,038)
Accounts payable and accrued expenses	(8,428)	5,463
Accrued interest payable	(8,642)	(8,683)
Other liabilities	(5,639)	2,920
Tenant leasing costs	(5,850)	(7,679)
Total adjustments	15,238	22,405
Net cash provided by operating activities	82,975	83,647
Cash flows from investing activities:		
Acquisitions/additions to real estate	(67,098)	(66,858)
Net investments in unconsolidated joint ventures	(7,291)	3,376
Net proceeds (payments) from the sales of real estate	(4,821)	5,289
Net cash used in investing activities	(79,210)	(58,193)

The accompanying notes are an integral part of these financial statements

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Unaudited)

	For the three months ended March 31, 2006	2005
	(in thousands)	
Cash flows from financing activities:		
Borrowings on unsecured line of credit	195,000	
Repayments of unsecured line of credit	(213,000)	
Proceeds from mortgage notes payable	20,278	12,442
Repayments of mortgage notes payable	(131,920)	(13,331)
Proceeds from a real estate financing transaction		39,743
Dividends and distributions	(106,771)	(89,429)
Net proceeds from the issuance of common securities	244	264
Proceeds from stock option exercises	2,288	612
Contributions (distributions) from/to minority interest holders, net	861	(5,670)
Deferred financing costs	(27)	(122)
Net cash used in financing activities	(233,047)	(55,491)
Net decrease in cash and cash equivalents	(229,282)	(30,037)
Cash and cash equivalents, beginning of period	261,496	239,344
Cash and cash equivalents, end of period	$ 32,214	$ 209,307
Supplemental disclosures:		
Cash paid for interest	$ 83,789	$ 87,185
Interest capitalized	$ 1,692	$ 693
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	$ 12,582	$ 7,722
Dividends and distributions declared but not paid	$ 95,344	$ 91,259
Conversions of Minority interests to Stockholders' equity	$ 2,588	$ 2,230
Basis adjustment to real estate in connection with conversions of Minority interests to Stockholders' equity	$ 6,333	$ 2,947
Issuance of restricted securities to employees and directors	$	$ 12,451

The accompanying notes are an integral part of these financial statements

Notes to the Consolidated Financial Statements

1. Organization

Boston Properties, Inc. (the Company), a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT). The Company is the sole general partner of Boston Properties Limited Partnership (the Operating Partnership) and at March 31, 2006 owned an approximate 81.0% (80.2% at March 31, 2005) 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 in this report as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units).

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

At March 31, 2006, there was one series of Preferred Units outstanding (i.e., Series Two Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be converted into OP Units at the election of the holder thereof or the Operating Partnership in accordance with the amendment to the partnership agreement (See also Note 8).

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

Properties

At March 31, 2006, the Company owned or had interests in a portfolio of 123 commercial real estate properties (121 and 125 properties at December 31, 2005 and March 31, 2005, respectively) (the Properties) aggregating approximately 42.7 million net rentable square feet (approximately 42.0 million and 44.1 million net rentable square feet at December 31, 2005 and March 31, 2005, respectively), including four properties under construction and one redevelopment/expansion project collectively totaling approximately 1.2 million net rentable square feet, and structured parking for approximately 32,925 vehicles containing approximately 9.6 million square feet. At March 31, 2006, the Properties consist of:

- 119 office properties, including 101 Class A office properties (including four properties under construction) and 18 Office/Technical properties;
- two hotels; and
- two retail properties.

The Company owns or controls undeveloped land parcels totaling approximately 522.3 acres. In addition, the Company has a 25% interest in the Boston Properties Office Value-Added Fund, L.P. (the Value-Added Fund), which is a strategic partnership with two institutional investors through which the Company intends to pursue 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 March 31, 2006, the Value-Added Fund had investments in an office complex in Herndon, Virginia and an office property in Chelmsford, Massachusetts.

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

2. Basis of Presentation and Summary of Significant Accounting Policies

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

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. 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 on Form 10-K for its fiscal year ended December 31, 2005.

3. Real Estate Activity During the Three Months Ended March 31, 2006

Development

On January 17, 2006, the Company placed-in-service its Seven Cambridge Center development project located in Cambridge, Massachusetts. Seven Cambridge Center is a fully-leased, build-to-suit project with approximately 231,000 net rentable square feet of office, research laboratory and retail space. The Company has leased 100% of the space to the Massachusetts Institute of Technology for occupancy by its affiliate, the Eli and Edythe L. Broad Institute. On October 1, 2005, the Company had placed-in-service the West Garage phase of the project consisting of parking for approximately 800 cars.

On March 31, 2006, the Company commenced construction of South of Market, a Class A office project consisting of two buildings aggregating approximately 402,000 net rentable square feet located in Reston, Virginia.

Dispositions

On February 23, 2005, the Company sold a parcel of land at the Prudential Center located in Boston, Massachusetts for a net sale price of approximately $31.5 million and an additional obligation of the buyer to

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fund approximately $19.6 million of costs at the Prudential Center for aggregate proceeds of $51.1 million. Due to the structure of the transaction and certain continuing involvement provisions related to the development of the property, this transaction did not qualify as a sale for financial reporting purposes and had been accounted for as a financing transaction. On January 3, 2006, the continuing involvement provisions expired and the Company recognized a gain on sale of approximately $4.8 million (net of minority interest share of approximately $0.9 million).

4. **Investments in Unconsolidated Joint Ventures**

The investments in unconsolidated joint ventures consist of the following at March 31, 2006:

Entity	Properties	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%(1)
BP/CRF 265 Franklin Street Holdings LLC	265 Franklin Street	35.0%
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(2)
Wisconsin Place Entities	Wisconsin Place	23.9%(3)(4)
Boston Properties Office Value-Added Fund, L.P.	Worldgate Plaza and 300 Billerica Road	25.0%(2)
KEG Associates I, LLC	505 9th Street	50.0%(3)
New York Land Venture	New York Land	50.0%(3)

(1) This joint venture is accounted for under the equity method due to participatory rights of the outside partner.
(2) The Company s economic ownership can increase based on the achievement of certain return thresholds.
(3) The property is not in operation (i.e., under construction or undeveloped land).
(4) Represents the Company s effective ownership interest. The Company has a 66.67%, 5% and 0% interest in the office, retail and residential joint venture entities, respectively, each of which owns a 33.33% interest in the entity developing and owning the land and infrastructure of the project.

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

On March 13, 2006, a joint venture in which the Company has a 50% interest acquired a land parcel located in New York City for a purchase price of approximately $6.0 million.

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

	March 31, 2006	December 31, 2005
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 743,049	$ 733,908
Other assets	67,785	67,654
Total assets	$ 810,834	$ 801,562
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable(1)	$ 587,455	$ 587,727
Other liabilities	17,755	18,717
Members /Partners equity	205,624	195,118
Total liabilities and members /partners equity	$ 810,834	$ 801,562

Company s share of equity	$	96,133	$	87,489
Basis differentials(2)		2,703		2,718
Carrying value of the Company s investments in unconsolidated joint ventures	$	98,836	$	90,207

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(1) The Company and its third-party joint venture partners in the Wisconsin Place Entities have guaranteed the seller financing totaling $15.5 million related to the acquisition of the land by the Land and Infrastructure Entity. The fair value of the Company s stand-ready obligation related to the issuance of this guarantee is immaterial.

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

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

	For the three months ended March 31, 2006	2005
	(in thousands)	
Total revenue	$ 25,216	$ 23,448
Expenses		
Operating	8,539	7,496
Interest	8,568	7,913
Depreciation and amortization	6,066	4,812
Total expenses	23,173	20,221
Net income	$ 2,043	$ 3,227
Company s share of net income	$ 1,290	$ 1,335

5. Mortgage Notes Payable

On January 31, 2006, the Company repaid the mortgage loan collateralized by its 101 Carnegie Center property located in Princeton, New Jersey totaling approximately $6.6 million using available cash. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 7.66% per annum and was scheduled to mature on April 1, 2006.

On February 24, 2006, the Company repaid the construction financing collateralized by its Seven Cambridge Center property located in Cambridge, Massachusetts totaling approximately $112.5 million using approximately $7.5 million of available cash and $105.0 million drawn under the Company s Unsecured Line of Credit. There was no prepayment penalty associated with the repayment. The Company recognized a loss from early extinguishment of debt totaling approximately $0.5 million consisting of the write-off of unamortized deferred financing costs. The construction financing bore interest at a variable rate equal to LIBOR plus 1.10% per annum and was scheduled to mature in April 2007.

During 2005, the Company entered into forward-starting interest rate swap contracts which fix the ten-year treasury rate for a financing in February 2007 at a weighted-average rate of 4.34% per annum on notional amounts aggregating $500.0 million. The swaps go into effect in February 2007 and expire in February 2017. The Company entered into the interest rate swap contracts designated and qualifying as a cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the Treasury rate in contemplation of obtaining ten-year fixed-rate financing in early 2007. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments. The Company has formally documented all of its relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses and documents, both at the hedging instrument s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. All components of the forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. At March 31, 2006, derivatives with a fair value of $22.3 million were included in Prepaid Expenses and Other Assets within the Company s Consolidated Balance Sheets. For the three months ended March 31, 2006, the Company has recorded the changes in fair value of the swap contracts related to the effective portion of the interest rate contracts totaling approximately $16.2 million in Accumulated Other Comprehensive Income (Loss) within the Company s Consolidated Balance Sheets. The accumulated comprehensive income (loss) will be reclassified to interest expense over the term of the forecasted fixed-rate debt. The Company does not expect to reclassify any amounts recorded within Accumulated Other Comprehensive Income (Loss) relating to the forward-starting interest rate swap contracts within the next twelve months.

6. Unsecured Line of Credit

On May 19, 2005, the Company modified its $605.0 million unsecured revolving credit facility (the Unsecured Line of Credit) by extending the maturity date from January 17, 2006 to October 30, 2007, with a provision for a one-year extension at the option of the Company, subject to certain conditions, and by reducing the per annum variable interest rate on outstanding balances from Eurodollar plus 0.70% to Eurodollar plus 0.65% per annum. Under the Unsecured Line of Credit, a facility fee equal to 15 basis points per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in the Operating Partnership s unsecured debt ratings. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a reduced Eurodollar rate. The Company had an outstanding balance on the Unsecured Line of Credit of $265.0 million at March 31, 2006, of which $225.0 million is collateralized by the Company s 599 Lexington Avenue property and therefore is included in Mortgage Notes Payable in the Company s Consolidated Balance Sheets.

The terms of the Unsecured Line of Credit require that the Company maintain a number of customary financial and other covenants on an ongoing basis, including: (1) a leverage ratio not to exceed 60%, however for a single period of not more than five consecutive quarters the leverage ratio can exceed 60% (but may not exceed 65%), (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an unsecured leverage ratio not to exceed 60%, (5) a minimum net worth requirement, (6) an unsecured interest coverage ratio of at least 1.75 and (7) limitations on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties.

7. Commitments and Contingencies

General

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

The Company has letter of credit and performance obligations of approximately $15.5 million related to lender and development requirements.

The Company and its third-party joint venture partners have guaranteed the seller financing totaling $15.5 million related to the acquisition of the land by the WP Project Developer LLC, the Land and Infrastructure Entity of the Wisconsin Place joint venture entities.

The Company s agreement for its Citigroup Center consolidated joint venture includes a provision whereby, after a certain specified time, the joint venture partner has the right to initiate a purchase or sale of its interest in the joint venture. Under this provision, the Company is compelled to purchase, at fair value, the joint venture partner s interest. Certain of the Company s other 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 other provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

Insurance

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act, or TRIA, was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) through December 31, 2004, which date was extended to December 31, 2005 by the United States Department of Treasury on June 18, 2004 and which date was further extended to December 31, 2007 by the Terrorism Risk Insurance Extension Act of 2005 (the TRIA Extension Act). TRIA expires on December 31, 2007, and the Company cannot currently anticipate whether it will be extended. Effective as of March 1, 2006, the Company s property insurance program per occurrence limits were decreased from $1 billion to $800 million, including coverage for both certified and non-certified acts of terrorism by TRIA. The amount of such insurance available in the market has decreased because of the natural disasters which occurred during 2005. The Company also carries nuclear, biological, chemical and radiological terrorism insurance coverage (NBCR Coverage) for certified acts of terrorism as defined by TRIA, which is provided by IXP, Inc. as a direct insurer. Effective as of March 1, 2006, the Company extended the NBCR Coverage to March 1, 2007, excluding the Company s Value-Added Fund properties. Effective as of March 1, 2006, the per occurrence limit for NBCR Coverage was decreased from $1 billion to $800 million. Under TRIA, after the payment of the required deductible and coinsurance the NBCR Coverage is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. Under the TRIA Extension Act (a) the program trigger is $5 million through March 31, 2006, $50 million from April 1, 2006 through December 31, 2006 and $100 million from January 1, 2007 through December 31, 2007 and (b) the coinsurance is 10% through December 31, 2006 and 15% through December 31, 2007. The Company may elect to terminate the NBCR Coverage when the program trigger increases on January 1, 2007, if there is a change in its portfolio or for any other reason. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain insurance in amounts and on terms that are commercially reasonable.

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

In January 2002, the Company formed a wholly-owned taxable REIT subsidiary, IXP, Inc., or IXP, to act as a captive insurance company and be one of the elements of the Company s overall insurance program. IXP acts as a direct insurer with respect to a portion of the Company s earthquake insurance coverage for its Greater San Francisco properties and the Company s NBCR Coverage for certified acts of terrorism under TRIA. Insofar as the Company owns IXP, it is responsible for its liquidity and capital resources, and the accounts of IXP are part of the Company s consolidated financial statements. In particular, if a loss occurs which is covered by the Company s NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. If the Company experiences a loss and IXP is required to pay under its insurance policy, the Company would ultimately record the loss to the extent of IXP s required payment. Therefore, insurance coverage provided by IXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance.

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

8. Minority Interests

Minority interests relate to the interest in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of March 31, 2006, the minority interest in the Operating Partnership consisted of 21,167,704 OP Units, 374,119 LTIP Units and 3,701,335 Series Two Preferred Units (or 4,857,395 OP Units on an as converted basis) held by parties other than the Company.

The minority interests in property partnerships consist of the outside equity interests in the ventures that own Citigroup Center and the office entity at Wisconsin Place. These ventures 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 $17.6 million and $18.0 million at March 31, 2006 and December 31, 2005, respectively, are included in Minority Interests on the accompanying Consolidated Balance Sheets. The minority interest holder s share of income for Citigroup Center is reflective of the Company s preferential return on and of its capital.

The Preferred Units at March 31, 2006 consist solely of 3,701,335 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) an increasing rate, ranging from 5.00% to 7.00% per annum (7.00% for the three months ended March 31, 2006 and 2005) on a liquidation preference of $50.00 per unit, and are convertible into OP Units at a rate of $38.10 per Preferred Unit (1.312336 OP Units for each Preferred Unit). Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

During the three months ended March 31, 2006, 210,020 OP Units were presented by the holders for redemption and were redeemed by the Company in exchange for an equal number of shares of Common Stock. The aggregate book value of the OP Units that were redeemed, as measured for each OP Unit on the date of its redemption, was approximately $2.6 million. The difference between the aggregate book value and the purchase price of these OP Units was approximately $6.3 million, which increased the recorded value of the Company s net assets.

On January 30, 2006, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit to holders of record on December 30, 2005.

On February 15, 2006, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $4.17323 per unit, which amount includes the impact of the special cash distribution on the OP Units and LTIP Units declared by Boston Properties, Inc., as general partner of the Operating Partnership, in July 2005 and paid on October 31, 2005.

On March 17, 2006, Boston Properties, Inc., as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit payable on April 28, 2006 to holders of record on March 31, 2006.

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9. Stockholders Equity

As of March 31, 2006, the Company had 112,813,657 shares of Common Stock outstanding.

During the three months ended March 31, 2006, the Company issued 210,020 shares of its Common Stock in connection with the redemption of an equal number of OP Units.

On January 30, 2006, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on December 30, 2005.

On March 17, 2006, the Company s Board of Directors declared a dividend in the amount of $0.68 per share of Common Stock payable on April 28, 2006 to shareholders of record as of the close of business on March 31, 2006.

10. Discontinued Operations

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

The Company did not sell any operating properties during the three months ended March 31, 2006. During the year ended December 31, 2005, the Company sold the following operating properties:

- Old Federal Reserve, a Class A office property totaling approximately 150,000 net rentable square feet located in San Francisco, California;

- 100 East Pratt Street, a Class A office property totaling approximately 639,000 net rentable square feet located in Baltimore, Maryland;

- Riverfront Plaza, a Class A office property totaling approximately 910,000 net rentable square feet located in Richmond, Virginia;

- Residence Inn by Marriott®, a 221-room extended-stay hotel property located in Cambridge, Massachusetts;

- 40-46 Harvard Street, an industrial property totaling approximately 152,000 net rentable square feet located in Westwood, Massachusetts; and

- Embarcadero Center West Tower, a Class A office property totaling approximately 475,000 net rentable square feet located in San Francisco, California.

Due to the Company s continuing involvement in the management, for a fee, of the 100 East Pratt Street, Riverfront Plaza and Embarcadero Center West Tower properties through agreements with the buyers, these properties are not categorized as discontinued operations in the accompanying Consolidated Statements of Operations. The Company has presented the other properties listed above as discontinued operations in its Consolidated Statements of Operations for the three months ended March 31, 2005, as applicable.

The following table summarizes loss from discontinued operations (net of minority interest) for the three months ended March 31, 2006 and 2005:

	For the three months ended March 31, 2006	2005
	(in thousands)	
Total revenue	$	$ 1,919
Operating expenses		(1,904)
Depreciation and Amortization		(366)
Minority interest in Operating Partnership		58
Loss from discontinued operations (net of minority interest)	$	$ (293)

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The Company s application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold during 2005 as loss from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

11. Earnings Per Share

Earnings per share (EPS) has been computed pursuant to the provisions of SFAS No. 128. The following table provides a reconciliation of both the net income and the number of common shares used in the computation of basic EPS, which is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. During 2004, the Company adopted EITF 03-6 Participating Securities and the Two-Class Method under FASB 128 (EITF 03-6), which provides further guidance on the definition of participating securities. Pursuant to EITF 03-6, the Operating Partnership s Series Two Preferred Units, which are reflected as Minority Interests in the Company s Consolidated Balance Sheets, are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. The terms of the Series Two Preferred Units enable the holders to obtain OP Units of the Operating Partnership, as well as Common Stock of the Company. Accordingly, for the reporting periods in which the Operating Partnership s net income is in excess of distributions paid on the OP Units, LTIP Units and Series Two Preferred Units, such income is allocated to the OP Units, LTIP Units and Series Two Preferred Units in proportion to their respective interests and the impact is included in the Company s consolidated basic and diluted earnings per share computation due to its holding of the Operating Partnership s securities. There were no amounts required to be allocated to the Series Two Preferred Units for the three months ended March 31, 2006 and 2005. Other potentially dilutive common shares, including 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 March 31, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations	$ 67,737	112,509	$ 0.60
Discontinued operations, net of minority interest			
Net income available to common shareholders	67,737	112,509	0.60
Effect of Dilutive Securities:			
Stock Based Compensation		2,648	(0.01)
Diluted Earnings:			
Net income	$ 67,737	115,157	$ 0.59

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	For the three months ended March 31, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations	$ 61,535	110,187	$ 0.56
Discontinued operations, net of minority interest	(293)		(0.00)
Net income available to common shareholders	61,242	110,187	0.56
Effect of Dilutive Securities:			
Stock Based Compensation		2,177	(0.01)
Diluted Earnings:			
Net income	$ 61,242	112,364	$ 0.55

12. Segment Information

The Company s segments are based on the Company s method of internal reporting which classifies its operations by both geographic area and property type. The Company s segments by geographic area are Greater Boston, Greater Washington, D.C., Midtown Manhattan, Greater San Francisco and New Jersey. Segments by property type include: Class A Office, Office/Technical and Hotels.

Asset information by segment is not reported because the Company does not use this measure to assess performance. Therefore, depreciation and amortization expense is not allocated among segments. Interest and other income, development and management services, general and administrative expenses, interest expense, depreciation and amortization expense, minority interest in property partnership, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate (net of minority interest), loss from discontinued operations (net of minority interest) and loss from early extinguishment of debt are not included in Net Operating Income as the internal reporting addresses these items on a corporate level.

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

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Information by geographic area and property type:

Three months ended March 31, 2006 (dollars in thousands):

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A	$ 75,057	$ 53,334	$ 135,406	$ 46,538	$ 16,785	$ 327,120
Office/Technical	6,494	3,806				