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, 2008

¨ **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)**

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 x 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. (Check one):

Large accelerated filer x	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 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	**120,804,847**
(Class)	**(Outstanding on November 3, 2008)**

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended September 30, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1 Financial Statements.

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

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

	September 30, 2008	December 31, 2007
ASSETS		
Real estate, at cost	$ 9,434,884	$ 9,077,528
Real estate held for sale, net		221,606
Construction in process	813,404	700,762
Land held for future development	253,891	249,999
Less: accumulated depreciation	(1,710,875)	(1,531,707)
Total real estate	8,791,304	8,718,188
Cash and cash equivalents	55,597	1,506,921
Cash held in escrows	34,311	186,839
Investments in securities	16,160	22,584
Tenant and other receivables (net of allowance for doubtful accounts of $3,821 and $1,901, respectively)	57,554	58,074
Related party note receivable	270,000	
Accrued rental income (net of allowance of $22,613 and $829, respectively)	316,411	300,594
Deferred charges, net	314,562	287,199
Prepaid expenses and other assets	44,039	30,566
Investments in unconsolidated joint ventures	973,396	81,672
Total assets	$ 10,873,334	$ 11,192,637
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Mortgage notes payable	$ 2,282,699	$ 2,726,127
Unsecured senior notes (net of discount of $2,742 and $3,087, respectively)	1,472,258	1,471,913
Unsecured exchangeable senior notes (net of discount of $22,494 and $18,374, respectively)	2,037,506	1,294,126
Unsecured line of credit	319,000	
Accounts payable and accrued expenses	164,986	145,692
Dividends and distributions payable	96,491	944,870
Accrued interest payable	48,705	54,487
Other liabilities	167,646	232,705
Total liabilities	6,589,291	6,869,920
Commitments and contingencies		
Minority interests	639,171	653,892
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, 119,930,768 and 119,581,385 issued and 119,851,868 and 119,502,485 outstanding in 2008 and 2007, respectively	1,199	1,195
Additional paid-in capital	3,317,358	3,305,219

Earnings in excess of dividends	366,482	394,324
Treasury common stock at cost, 78,900 shares in 2008 and 2007	(2,722)	(2,722)
Accumulated other comprehensive loss	(37,445)	(29,191)
Total stockholders equity	3,644,872	3,668,825
Total liabilities and stockholders equity	$ 10,873,334	$ 11,192,637

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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(in thousands, except for per share amounts)			
Revenue				
Rental:				
Base rent	$ 266,205	$ 268,277	$ 828,671	$ 807,221
Recoveries from tenants	55,968	44,934	154,700	138,003
Parking and other	16,624	16,328	50,442	48,137
Total rental revenue	338,797	329,539	1,033,813	993,361
Hotel revenue	8,482	8,646	24,714	24,690
Development and management services	9,557	5,318	21,494	15,175
Interest and other	212	25,081	16,106	68,274
Total revenue	357,048	368,584	1,096,127	1,101,500
Expenses				
Real estate operating:				
Rental	127,715	113,506	364,551	339,375
Hotel	6,318	6,275	18,664	18,706
General and administrative	18,758	20,189	55,813	53,288
Interest	68,308	69,929	200,711	217,598
Depreciation and amortization	75,321	70,916	224,381	214,609
Net derivative losses	6,318		9,849	
Losses from early extinguishments of debt		2,695		3,417
Total expenses	302,738	283,510	873,969	846,993
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	54,310	85,074	222,158	254,507
Minority interests in property partnerships	(525)		(1,570)	
Income from unconsolidated joint ventures	2,644	1,390	5,541	19,623
Income before minority interest in Operating Partnership, gains on sales of real estate and discontinued operations	56,429	86,464	226,129	274,130
Minority interest in Operating Partnership	(9,420)	(13,946)	(36,486)	(41,754)
Income before gains on sales of real estate and discontinued operations	47,009	72,518	189,643	232,376
Gains on sales of real estate, net of minority interest	1,497	168,495	26,823	788,855
Income before discontinued operations	48,506	241,013	216,466	1,021,231
Discontinued operations:				
Income from discontinued operations, net of minority interest		1,357		5,342
Gain on sale of real estate from discontinued operations, net of minority interest				173,899
Net income available to common shareholders	$ 48,506	$ 242,370	$ 216,466	$ 1,200,472
Basic earnings per common share:				
Income available to common shareholders before discontinued operations	$ 0.40	$ 2.01	$ 1.81	$ 8.50
Discontinued operations, net of minority interest		0.01		1.51

Net income available to common shareholders	$	0.40	$	2.02	$	1.81	$	10.01
Weighted average number of common shares outstanding		119,832		119,010		119,708		118,715
Diluted earnings per common share:								
Income available to common shareholders before discontinued operations	$	0.40	$	1.98	$	1.79	$	8.36
Discontinued operations, net of minority interest				0.01				1.48
Net income available to common shareholders	$	0.40	$	1.99	$	1.79	$	9.84
Weighted average number of common and common equivalent shares outstanding		121,369		120,655		121,236		120,760

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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(in thousands)			
Net income available to common Shareholders	$ 48,506	$ 242,370	$ 216,466	$ 1,200,472
Other comprehensive income (loss):				
Net effective portion of interest rate contracts	4,521	(2,906)	(7,960)	(2,906)
Amortization of interest rate contracts	(98)	(98)	(294)	(113)
Other comprehensive income (loss)	4,423	(3,004)	(8,254)	(3,019)
Comprehensive income	$ 52,929	$ 239,366	$ 208,212	$ 1,197,453

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 nine months ended September 30, 2008	2007
	(in thousands)	
Cash flows from operating activities:		
Net income available to common shareholders	$ 216,466	$ 1,200,472
Adjustments to reconcile net income available to common shareholders to net cash provided by operating activities:		
Depreciation and amortization	224,381	217,323
Non-cash portion of interest expense	7,708	7,057
Non-cash compensation expense	17,534	9,318
Losses from early extinguishments of debt		838
Net derivative losses	9,849	
Losses on investments in securities	1,802	
Minority interests in property partnerships	1,570	
Earnings in excess of distributions from unconsolidated joint ventures	(590)	(13,462)
Minority interest in Operating Partnership	41,057	214,330
Gains on sales of real estate	(31,394)	(1,134,408)
Change in assets and liabilities:		
Cash held in escrows	3,146	5,119
Tenant and other receivables, net	9,979	13,853
Accrued rental income, net	(15,817)	(30,298)
Prepaid expenses and other assets	(24,280)	(14,200)
Accounts payable and accrued expenses	12,987	6,892
Accrued interest payable	(5,782)	(770)
Other liabilities	(64,131)	(8,345)
Tenant leasing costs	(41,526)	(20,596)
Total adjustments	146,493	(747,349)
Net cash provided by operating activities	362,959	453,123
Cash flows from investing activities:		
Acquisitions/additions to real estate	(465,565)	(714,101)
Proceeds from redemptions of investments in securities	12,929	
Net investments in unconsolidated joint ventures	(890,593)	(5,315)
Net proceeds from the sale/financing of real estate released from escrow	149,382	
Issuance of note receivable	(270,000)	
Proceeds from note receivable	123,000	
Net proceeds from the sales of real estate	127,730	1,773,125
Net cash provided by (used in) investing activities	(1,213,117)	1,053,709

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 nine months ended September 30, 2008	2007
	(in thousands)	
Cash flows from financing activities:		
Borrowings on unsecured line of credit	1,191,000	260,000
Repayments of unsecured line of credit	(872,000)	(260,000)
Proceeds from mortgage notes payable	136,931	1,020,216
Repayments of mortgage notes payable	(580,359)	(1,122,135)
Proceeds from unsecured exchangeable senior notes	740,025	840,363
Proceeds from real estate financing transaction		1,610
Payments on real estate financing transactions	(4,634)	(8,156)
Advance from joint venture partners	30,000	
Repayment of advance from joint venture partners	(30,000)	
Dividends and distributions	(1,138,824)	(1,047,131)
Net proceeds from equity transactions	(731)	14,521
Capped call transaction costs	(44,360)	
Contributions from (distributions to) minority interest holders, net	(14,082)	3,297
Redemption of minority interest		(35,625)
Deferred financing costs	(14,132)	(5,382)
Net cash used in financing activities	(601,166)	(338,422)
Net increase (decrease) in cash and cash equivalents	(1,451,324)	1,168,410
Cash and cash equivalents, beginning of period	1,506,921	725,788
Cash and cash equivalents, end of period	$ 55,597	$ 1,894,198
Supplemental disclosures:		
Cash paid for interest	$ 229,271	$ 231,938
Interest capitalized	$ 30,486	$ 20,627
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable	$ 12,971	$ 12,922
Dividends and distributions declared but not paid	$ 96,491	$ 96,152
Issuance of OP Units in connection with the acquisition of real estate	$ 15,000	$
Issuance of OP Units in connection with an investment in an unconsolidated joint venture	$ 10,000	$
Conversions of Minority interests to Stockholders equity	$ 7,172	$ 30,102
Basis adjustment to real estate in connection with conversions of Minority interests to Stockholders equity	$ 17,571	$ 111,865

Mortgage notes payable assumed in connection with the acquisition of real estate	$		$	65,224
Note receivable issued in connection with the transfer of real estate	$	123,000	$	
Issuance of restricted securities to employees and directors	$	43,536	$	17,658

The accompanying notes are an integral part of these financial statements

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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, 2008 owned an approximate 84.1% (84.2% at September 30, 2007) 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, the Company issued LTIP Units in connection with the granting to employees of 2008 outperformance awards (also referred to as 2008 OPP Units). Because the rights, preferences and privileges of 2008 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 2008 OPP Units. For a complete description of the terms of the 2008 OPP Units (See Note 13).

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

At September 30, 2008, 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 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, 2008, the Company owned or had interests in a portfolio of 146 commercial real estate properties (compared to 139 and 138 properties at December 31, 2007 and September 30, 2007, respectively) (the Properties) aggregating approximately 48.5 million net rentable square feet (compared to approximately 43.8 million and 44.1 million net rentable square feet at December 31, 2007 and September 30, 2007, respectively), including 14 properties under construction totaling approximately 4.4 million net rentable square feet, and structured parking for approximately 32,542 vehicles containing approximately 10.3 million square feet. At September 30, 2008, the Properties consist of:

- 142 office properties, including 122 Class A office properties (including 14 properties under construction) and 20 Office/Technical properties;

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- one hotel; and
- three retail properties.

The Company owns or controls undeveloped land parcels totaling approximately 583.0 acres. In addition, the Company has a minority 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, 2008, the Value-Added Fund had investments in 26 buildings comprised of an office property in Chelmsford, Massachusetts and office complexes in San Carlos, California and Mountain View, California.

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

2. Basis of Presentation and Summary of Significant Accounting Policies

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

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

Contractual rental revenue is reported on a straight-line basis over the terms of the Company s respective leases. Accrued rental income, as reported on the Company s Consolidated Balance Sheets, represents rental revenue recognized in excess of rent payments earned pursuant to the terms of the individual lease agreements. For the three and nine months ended September 30, 2008, the impact of the straight-line rent adjustment was an approximately $10.2 million decrease in rental revenue and an approximately $13.5 million increase in rental revenue, respectively. The straight-line rent adjustment for these periods included an approximately $21.0 million decrease due to the establishment of reserves for the full amount of the accrued straight-line rent balances associated with the Company s leases in New York City with Lehman Brothers Inc. and the law firm of Heller Ehrman LLP.

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Real Estate Activity During the Nine Months Ended September 30, 2008

Acquisitions

On September 26, 2008, the Company acquired from National Public Radio (NPR) its headquarters building at 635 Massachusetts Avenue (the NPR Building) comprised of approximately 211,000 net rentable square feet located in Washington, DC for a purchase price of approximately $119.5 million in cash. In addition, the Company and NPR have entered into a development management agreement pursuant to which the Company will act as development manager for NPR s new headquarters building on NPR-owned land at 1111 North Capitol Street in Washington, DC. NPR and the Company have entered into a lease for the NPR Building for a five-year term at the conclusion of which NPR will occupy its new headquarters. Following the expiration of the lease with NPR, the Company expects to redevelop the NPR Building site into a Class A office property comprised of approximately 450,000 net rentable square feet.

Development

On February 5, 2008, the Company executed 60-year ground leases with The George Washington University for the redevelopment of a site at Pennsylvania Avenue and Washington Circle in the District of Columbia as a mixed-use project comprised of approximately 450,000 square feet of office space and 330,000 square feet of residential space. The Company has commenced construction on the project.

On May 12, 2008, the Company acquired the remaining development rights for its 250 West 55th Street development project located in New York City for an aggregate purchase price of approximately $34.2 million. The acquisition was financed with approximately $19.2 million of cash and the issuance to the selling entity of 150,000 OP Units.

During the nine months ended September 30, 2008, a consolidated joint venture in which the Company has a 50% interest placed in-service 505 9th Street, a 322,000 net rentable square foot Class A office property located in Washington, DC.

During the nine months ended September 30, 2008, the Company partially placed in-service the following development properties:

- 77 CityPoint, a Class A office project with approximately 210,000 net rentable square feet located in Waltham, Massachusetts;

- South of Market, comprised of three Class A office properties aggregating approximately 652,000 net rentable square feet located in Reston, Virginia; and

- One Preserve Parkway, a Class A office project with approximately 183,000 net rentable square feet located in Rockville, Maryland.

Dispositions

On January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 601,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. In consideration for the transfer, the Company received approximately $98.6 million of cash and a promissory note having a principal amount of $123.0 million. The promissory note bore interest at a fixed rate of 7% per annum and was scheduled to mature in October 2008, subject to extension

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

at the option of the Value-Added Fund until April 2009. On March 27, 2008, the Value-Added Fund repaid $23.0 million of the financing with proceeds from third-party mortgage financing collateralized by the Mountain View Technology Park properties. On May 30, 2008, the Value-Added Fund repaid the remaining $100.0 million of the financing with proceeds from third-party mortgage financing collateralized by the Mountain View Research Park properties.

On April 14, 2008, the Company sold a parcel of land located in Washington, DC for approximately $33.7 million. The Company had previously entered into a development management agreement with the buyer to develop a Class A office property on the parcel totaling approximately 165,000 net rentable square feet. Due to the Company s involvement in the construction of the project, the gain on sale has been deferred and will be recognized over the project construction period generally based on the percentage of total project costs incurred to estimated total project costs. As a result, the Company recognized a gain on sale during the nine months ended September 30, 2008 of approximately $6.8 million (net of minority interest share of approximately $1.2 million).

During the nine months ended September 30, 2008, the Company signed a new qualifying lease for approximately 17,454 net rentable square feet of its remaining 25,409 net rentable square foot master lease obligation related to the 2006 sale of 280 Park Avenue resulting in the recognition of approximately $20.0 million (net of minority interest share of approximately $3.4 million) as additional gain on sale of real estate. The Company had deferred approximately $67.3 million of the gain on sale of 280 Park Avenue, which amount represented the maximum obligation under the master lease. As of September 30, 2008, the remaining master lease obligation totaled approximately $1.3 million.

4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at September 30, 2008:

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 901 New York Avenue LLC	901 New York Avenue	25.0%(2)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	23.9%(3)(4)
Wisconsin Place Retail LLC	Wisconsin Place Retail	5.0%(3)
Eighth Avenue and 46th Street Entities	Eighth Avenue and 46th Street	50.0%(3)
Boston Properties Office Value-Added Fund, L.P.	300 Billerica Road, One & Two Circle Star Way and Mountain View Research and Technology Parks	36.9%(2)(5)
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(3)
767 Venture, LLC	The General Motors Building	60.0%(1)
2 GCT Venture, LLC	Two Grand Central Tower	60.0%(1)
540 Madison Venture, LLC	540 Madison Avenue	60.0%(1)
125 West 55th Street Venture, LLC	125 West 55th Street	60.0%(1)

(1) The Company has determined that these entities are not VIEs and that its joint venture partners have substantive participating rights with respect to the assets and operations of the properties, pursuant to the joint venture agreements.
(2) The Company s economic ownership can increase based on the achievement of certain return thresholds.
(3) These properties have been partially placed in-service or are not in operation (i.e., under construction or assembled land).

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(5) Represents the Company s effective ownership interest. The Company has a 25.0% interest in the 300 Billerica Road and One & Two Circle Star Way properties and a 39.5% interest in the Mountain View Research and Technology Park properties.

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 January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million. The Research Park properties are comprised of sixteen Class A office and office/technical properties aggregating approximately 601,000 net rentable square feet located in Mountain View, California. The Technology Park properties are comprised of seven office/technical properties aggregating approximately 135,000 net rentable square feet located in Mountain View, California. In consideration for the transfer, the Company received approximately $98.6 million of cash and a promissory note having a principal amount of $123.0 million. The promissory note bore interest at a fixed rate of 7% per annum and was scheduled to mature in October 2008, subject to extension at the option of the Value-Added Fund until April 2009. In connection with the transfer of the Research Park and Technology Park properties to the Value-Added Fund, the Company and its partners agreed to certain modifications to the Value-Added Fund s original terms, including bifurcating the Value-Added Fund s promote structure such that Research Park and Technology Park will be accounted for separately from the non-Mountain View properties owned by the Value-Added Fund (i.e., Circle Star and 300 Billerica Road). As a result of the modifications, the Company s interest in the Mountain View properties is approximately 39.5% and its interest in the non-Mountain View properties is 25%. This investment completes the investment commitments for new properties from the Value-Added Fund partners.

On March 27, 2008, the Value-Added Fund obtained third-party mortgage financing totaling $26.0 million (of which $24.0 million has been disbursed as of September 30, 2008) collateralized by the Mountain View Technology Park properties. The third-party mortgage financing bears interest at a variable rate equal to LIBOR plus 1.50% per annum and matures on March 31, 2011 with two, one-year extension options. The proceeds of the third-party mortgage financing were used to repay $23.0 million of the financing provided by the Company. On June 12, 2008, the Value-Added Fund entered into an interest rate swap contract related to the mortgage loan collateralized by the Mountain View Technology Park properties with a notional amount of $24.0 million to fix the one-month LIBOR index rate at 4.085% per annum through maturity on March 31, 2011.

On May 30, 2008, the Company s Value-Added Fund obtained mortgage financing totaling $120.0 million (of which $103.0 million was drawn at closing, with the remaining $17.0 million available to fund future tenant and capital costs) collateralized by the Mountain View Research Park properties. The mortgage financing bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on May 31, 2011 with two, one-year extension options. The Value-Added Fund entered into three interest rate swap contracts with notional amounts aggregating $103.0 million to fix the one-month LIBOR index rate at 3.63% per annum through April 1, 2011. The proceeds of the mortgage financing were used to repay the remaining $100.0 million of financing provided by the Company. During the three months ended September 30, 2008, the Company s Value-Added Fund obtained draws aggregating approximately $0.8 million to fund tenant and capital costs.

On January 29, 2008, the Wisconsin Place joint venture entity that owns and is developing the land and infrastructure components of the project (the Land and Infrastructure Entity) (a joint venture entity in which

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company owns an effective interest of approximately 23.89%) executed a second amendment to its construction loan agreement. The construction financing consisted of a $69.1 million commitment, bearing interest at a per annum variable rate equal to LIBOR plus 1.50% and maturing on March 11, 2009. The outstanding balance on the construction loan was approximately $52.6 million on the $69.1 million commitment. The amended agreement provides for a reduction in the loan commitment amount to $36.9 million. The reduction relates to the repayment of the office portion of the outstanding balance totaling approximately $24.9 million and an additional reduction in the borrowing capacity of approximately $7.3 million with a corresponding release of collateral in conjunction with the Wisconsin Place joint venture entity that owns and is developing the office component of the project (a consolidated joint venture entity in which the Company owns a 66.67% interest) obtaining new construction financing for its project. On April 29, 2008, the Land and Infrastructure Entity repaid the balance of the construction loan totaling approximately $29.4 million. The repayment relates to the repayment of the residential portion of the outstanding balance in conjunction with the Wisconsin Place joint venture entity that owns and is developing the residential component of the project (a joint venture entity in which the Company does not own an interest) obtaining new construction financing for its project.

On June 9, 2008, the Company completed the acquisition of the General Motors Building in New York City for a purchase price of approximately $2.8 billion. The General Motors Building is an approximately 2,000,000 rentable square foot office building located at the corner of 5th Avenue and Central Park South in New York City. The acquisition was completed through a joint venture among the Company, US Real Estate Opportunities I, L.P., which is a partnership managed by Goldman Sachs, and Meraas Capital LLC, a Dubai-based private equity firm. The Company has a 60% interest in the venture and provides customary property management and leasing services for the venture. The purchase price consisted of approximately $890 million of cash, the issuance to the selling entity of 102,883 OP Units and the assumption of approximately $1.9 billion of secured and mezzanine loans having a weighted average fixed interest rate of 5.97% per annum, all of which mature in October 2017. In addition, the venture acquired the lenders interest in a portion of the assumed mezzanine loans having an aggregate principal amount of $294.0 million and a stated interest rate of 6.02% per annum for a purchase price of approximately $263.1 million in cash. The purchase price was financed in part with loans from the venture s partners on a pro rata basis totaling $450.0 million, which bear interest at a fixed rate of 11.0% per annum and mature on June 9, 2017. The Company s share of the partner loans totaling $270.0 million has been reflected in Related Party Note Receivable on the Company s Consolidated Balance Sheets. The Company has eliminated interest income from its partner loan totaling approximately $9.5 million. In connection with the closing, the Company and the joint venture entered into a tax protection agreement with the seller that restricts the joint venture s ability to sell the General Motors Building in a taxable transaction and requires the Company and the joint venture to maintain certain amounts of indebtedness associated with the property and its acquisition for a period of up to nine years.

The following table summarizes the allocation of the purchase price, in accordance with SFAS No. 141, for the General Motors Building at the date of acquisition (in thousands).

Land	$ 1,139,394
Building and improvements	1,957,257
Tenant improvements	76,384
Tenant leasing costs	574,004
Below market assumed debt adjustment	101,395
Below market rents	(1,057,256)
Total aggregate purchase price	$ 2,791,178
Less: Indebtedness assumed, net	(1,606,000)
Net assets acquired	$ 1,185,178

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On August 12, 2008, the Company completed the acquisitions of 540 Madison Avenue and Two Grand Central Tower located in New York City, New York for an aggregate purchase price of approximately $705.0 million. 540 Madison Avenue is a 39-story building located at Madison Avenue at 55th Street that contains approximately 292,000 rentable square feet. Two Grand Central Tower is a 44-story mid-block tower that runs from 44th to 45th Street between Lexington and Third Avenue and contains approximately 664,000 rentable square feet. On August 13, 2008, the Company completed the acquisition of 125 West 55th Street also located in New York City, New York for a purchase price of approximately $444.0 million. 125 West 55th Street is a 23-story building, spanning from 55th to 56th Street between Avenue of the Americas and Seventh Avenue, that contains approximately 591,000 rentable square feet. Each acquisition was completed through a joint venture among the Company, US Real Estate Opportunities I, L.P., which is a partnership managed by Goldman Sachs, and Meraas Capital LLC, a Dubai-based private equity firm. The Company has a 60% interest in each venture and provides customary property management and leasing services for the ventures. The acquisitions were financed with cash contributions from the ventures partners aggregating approximately $575.6 million and the assumption of approximately $573.4 million of secured and mezzanine loans. The carrying value of the debt that was assumed as part of the transactions consists of the following:

540 Madison Avenue two secured loans having an aggregate principal amount of $119.9 million and a weighted-average fixed interest rate of 5.20% per annum, each of which matures in July 2013;

Two Grand Central Tower a $190.0 million secured loan having a fixed interest rate of 5.10% per annum, which matures in July 2010; and

125 West 55th Street - $263.5 million of secured and mezzanine loans having a weighted-average fixed interest rate of 6.25% per annum, all of which mature in March 2010.

The following table summarizes the allocation of the aggregate purchase prices, in accordance with SFAS No. 141, for 540 Madison Avenue, Two Grand Central Tower and 125 West 55th Street, at the date of acquisition (in thousands).

Land	$ 375,273
Building and improvements	760,431
Tenant improvements	24,242
Tenant leasing costs	88,940
Below market assumed debt adjustment	14,419
Below market rents	(107,395)
Total aggregate purchase price	$ 1,155,910
Less: Indebtedness assumed, net	(573,433)
Net assets acquired	$ 582,477

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	September 30, 2008	December 31, 2007
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 5,260,703	$ 700,646
Other assets	835,846	109,318
Total assets	$ 6,096,549	$ 809,964
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	$ 3,182,917	$ 565,568
Other liabilities	1,217,180	39,290
Members /Partners equity	1,696,452	205,106
Total liabilities and members /partners equity	$ 6,096,549	$ 809,964
Company s share of equity	$ 970,843	$ 79,074
Basis differentials(1)	2,553	2,598
Carrying value of the Company s investments in unconsolidated joint ventures	$ 973,396	$ 81,672

(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. Basis differentials occur primarily upon the transfer of assets that were previously owned by the Company into a joint venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
	(in thousands)		(in thousands)	
Total revenue(1)	$ 134,425	$ 22,796	$ 216,319	$ 71,802
Expenses				
Operating	35,562	8,176	62,329	25,700
Interest	53,229	7,423	81,698	23,945
Depreciation and amortization	55,182	5,215	81,411	16,039
Loss from early extinguishment of debt			152	146
Total expenses	143,973	20,814	225,590	65,830

Income (loss) before gain on sale of real estate	(9,548)	1,982	(9,271)	5,972
Gain on sale of real estate				32,777
Net income (loss)	$ (9,548)	$ 1,982	$ (9,271)	$ 38,749
Company s share of net income	$ (5,000)	$ 1,390	$ (3,918)	$ 19,623
Elimination of inter-entity interest on partner loan	7,644		9,459	
Income from unconsolidated joint ventures	$ 2,644	$ 1,390	$ 5,541	$ 19,623

(1) Includes straight-line rent adjustments of $5.2 million, $0.4 million for the three months ended September 30, 2008 and 2007, respectively, and $6.5 million and $1.9 million for the nine months ended September 30, 2008 and 2007, respectively. Includes above and below market rent adjustments of $40.8 million and $(0.7) million for the three months ended September 30, 2008 and 2007, respectively, and $47.4 million and $(2.5) million for the nine months ended September 30, 2008 and 2007, respectively.

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Mortgage Notes Payable

On January 29, 2008, the Wisconsin Place joint venture entity that owns and is developing the office component of the project (a consolidated joint venture entity in which the Company owns a 66.67% interest) obtained construction financing totaling $115.0 million collateralized by the office property. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.25% per annum and matures on January 29, 2011 with two, one-year extension options.

On February 1, 2008, the Company used available cash to repay the mortgage loan collateralized by its Reston Corporate Center property located in Reston, Virginia totaling approximately $20.5 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.56% per annum and was scheduled to mature on May 1, 2008.

On April 1, 2008, the Company used available cash to repay the mortgage loan collateralized by its Prudential Center property located in Boston, Massachusetts totaling approximately $258.2 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.72% per annum and was scheduled to mature on July 1, 2008.

On June 19, 2008, the Company obtained construction financing totaling $65.0 million collateralized by its Democracy Tower (formerly South of Market Phase II) development project located in Reston, Virginia. The Democracy Tower development project consists of a Class A office property with approximately 225,000 net rentable square feet. The construction financing bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on December 19, 2010 with two one-year extension options.

On September 10, 2008, the Company used available cash to repay the mortgage loan collateralized by its One and Two Embarcadero Center properties located in San Francisco, California totaling approximately $274.8 million. There was no prepayment penalty associated with the repayment. The mortgage loan bore interest at a fixed rate of 6.74% per annum and was scheduled to mature on December 10, 2008.

During 2007, the Company commenced an interest rate hedging program for its expected financing activity in 2008 and entered into 11 treasury locks based on a weighted-average 10-year treasury rate of 4.68% per annum on notional amounts aggregating $375.0 million. Nine of the treasury locks with notional amounts aggregating $325.0 million matured on April 1, 2008, at which time the Company cash-settled the contracts and made cash payments to the counterparties totaling approximately $33.5 million. The remaining two treasury locks with notional amounts aggregating $50.0 million matured on July 31, 2008, at which time the Company cash-settled the contracts and made cash payments to the counterparties totaling approximately $1.3 million. In addition, the Company entered into five forward-starting interest rate swap contracts to lock the 10-year LIBOR swap rate on notional amounts aggregating $150.0 million at a weighted-average forward-starting 10-year swap rate of 5.19% per annum. The 10-year treasury rate is a component of the 10-year swap rate and the swap contracts effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.51% per annum. The swap contracts went into effect on July 31, 2008 and were to expire on July 31, 2018. On July 31, 2008 and September 2, 2008, the Company cash-settled its forward-starting interest rate swap contracts and made aggregate cash payments to the counterparties totaling approximately $8.6 million. Collectively, all of the foregoing contracts were intended to have effectively fixed the 10-year treasury rate at a weighted-average interest rate of 4.63% per annum on notional amounts aggregating $525.0 million. The Company entered into the treasury locks and interest rate swap contracts designated and qualifying as cash flow hedges to reduce its exposure to the variability in future cash flows attributable to changes in the hedged rate in contemplation of obtaining ten-year fixed-rate financings in 2008. In addition, during 2007, the Company entered into an interest

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

rate swap to fix the one-month LIBOR index rate at 4.57% per annum on a notional amount of $96.7 million. This interest rate swap went into effect on October 22, 2007 and expired on October 29, 2008.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments. The Company has formally documented all of its relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also assesses and documents, both at the hedging instrument s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. All components of the treasury locks and forward-starting interest rate swap contracts were included in the assessment of hedge effectiveness. During the nine months ended September 30, 2008, the Company modified the estimated dates with respect to its anticipated financings under the interest rate hedging program. As a result, the Company recognized a net derivative loss of approximately $3.2 million representing the partial ineffectiveness of the interest rate contracts. In addition, on September 9, 2008, the Company executed an interest rate lock agreement with lenders at an all-in fixed rate, inclusive of the credit spread, of 6.10% per annum for an eight-year, $375.0 million loan collateralized by its Four Embarcadero Center property located in San Francisco, California. The Company s interest rate hedging program contemplated a financing with a ten-year term and, as a result, under SFAS No. 133, the Company recognized a net derivative loss of approximately $6.6 million representing the partial ineffectiveness of its interest rate contracts. The Company has recorded the changes in fair value of the treasury lock and swap contracts related to the effective portion totaling approximately $33.6 million at September 30, 2008 in Accumulated Other Comprehensive Loss within the Company s Consolidated Balance Sheets. Based on interest rates in effect as of September 30, 2008 and assuming the Company completes financing transactions in accordance with its current plans, the Company expects that within the next twelve months it will reclassify into earnings as an increase in interest expense approximately $3.5 million of the $33.6 million recorded within Accumulated Other Comprehensive Loss relating to the treasury locks and forward-starting interest rate swap contracts.

6. Unsecured Exchangeable Senior Notes

3.625% Exchangeable Senior Notes due 2014

On August 19, 2008, the Company s Operating Partnership completed an offering of $747.5 million in aggregate principal amount (including $97.5 million as a result of the exercise by the initial purchasers of their over-allotment option) of its 3.625% exchangeable senior notes due 2014. The notes were priced at 99.0% of their face amount, resulting in aggregate net proceeds to the Company, after deducting the initial purchasers discounts and offering expenses, of approximately $731.6 million, resulting in an effective interest rate of approximately 4.057% per annum. The notes mature on February 15, 2014, unless earlier repurchased, exchanged or redeemed.

On and after January 1, 2014, the notes will be exchangeable at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date at the option of the holders into cash up to their principal amount and, at the Operating Partnership s option, cash or shares of the Company s common stock for the remainder, if any, of the exchange value in excess of such principal amount at the applicable exchange rate, which initially equals 8.5051 shares of the Company s common stock per $1,000 principal amount of the notes (equivalent to an exchange price of approximately $117.58 per share of the Company s common stock) and is subject to adjustment in certain circumstances. The initial exchange price of approximately $117.58 per share of the Company s common stock represents an approximately 20% premium to the closing price of the Company s common stock on the New York Stock Exchange on August 13, 2008 of $97.98 per share. Prior to the close of business on the scheduled trading day immediately preceding January 1, 2014, holders of the notes

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

may only exchange their notes at their option under the following circumstances: (1) during the five business day period after any 10 consecutive trading day period (the measurement period) in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of the Company s common stock and the exchange rate on each such day; (2) during any fiscal quarter beginning after the fiscal quarter ended September 30, 2008 if the last reported sale price of the Company s common stock for each of at least 20 trading days in the 30 consecutive trading days ending on, and including, the last day of the preceding fiscal quarter is more than 130% of the applicable exchange price for the notes on the last day of such preceding fiscal quarter; (3) if the Operating Partnership has called such notes for redemption to preserve the Company s status as a real estate investment trust and the redemption has not yet occurred; (4) in connection with specified corporate transactions, including a fundamental change; or (5) if the Company s common stock is delisted. The notes may be accelerated upon an event of default as described in Supplemental Indenture No. 7.

If the Company undergoes a fundamental change, holders of the notes will have the option to require the Operating Partnership to purchase all or any portion of the notes at a purchase price equal to 100% of the principal amount of the notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The Operating Partnership will pay cash for all notes so repurchased. The holders of the notes will have the right to exchange their notes at their option in connection with a fundamental change, and, if a fundamental change occurs, the exchange rate may be increased by up to 1.7011 shares of the Company s common stock per $1,000 principal amount of the notes, subject to adjustment in certain circumstances, for a holder who elects to exchange its notes in connection with the fundamental change. The number of additional shares by which the exchange rate will be increased will be determined by reference to a table included in Supplemental Indenture No. 7, based on the date on which the fundamental change occurs or becomes effective and the price paid per share of the Company s common stock in the transaction or event that constitutes such fundamental change. A fundamental change will be deemed to occur upon the consummation of any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in connection with which more than 50% of the Company s common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration which is not at least 90% common stock (or American Depositary Shares representing shares of common stock) that is either (1) listed on, or immediately after consummation of such transaction or event will be listed on, a United States national securities exchange; or (2) approved, or immediately after the transaction or event will be approved, for listing or quotation on any United States system of automated dissemination of quotations of securities prices similar to a United States national securities exchange.

The notes are senior unsecured obligations of the Operating Partnership and rank equally in right of payment to all existing and future senior unsecured indebtedness and senior in right of payment to any future subordinated indebtedness of the Operating Partnership. The notes effectively rank junior in right of payment to all existing and future secured indebtedness of the Operating Partnership to the extent of the value of the collateral securing such indebtedness. The notes are structurally subordinated to all liabilities of the subsidiaries of the Operating Partnership.

The Company offered and sold the notes to the initial purchasers in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The initial purchasers then sold the notes to qualified institutional buyers pursuant to the exemption from registration provided by Rule 144A under the Securities Act. The Company relied on these exemptions from registration based in part on representations made by the initial purchasers.

In connection with the closing, the Company and the Operating Partnership entered into a Registration Rights Agreement (the Registration Rights Agreement) with the initial purchasers. Under the Registration

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Rights Agreement, the Company and the Operating Partnership have agreed, for the benefit of the holders of the notes, to register the resale of the Company s common stock, if any, issued upon exchange of the notes on a shelf registration statement filed with the Securities and Exchange Commission. The Company and the Operating Partnership may be required to pay liquidated damages of up to 0.50% per annum of additional interest to the holders of the notes if the Company and the Operating Partnership fail to meet certain deadlines or take certain actions relating to the registration of the Company s common stock issuable upon exchange of the notes. Neither the Company nor the Operating Partnership will be required to pay liquidated damages with respect to any note after it has been exchanged. Additionally, pursuant to Supplemental Indenture No. 7, to the extent that any shares of the Company s common stock issued upon exchange of the notes are not covered by a resale registration statement that is effective on the date of the exchange and certain other conditions have been met, the Company must deliver 0.03 additional shares of the Company s common stock upon exchange of the notes for each of such shares.

In connection with the sale of the notes, the Operating Partnership and the Company also entered into capped call transactions (together, the Capped Call Transaction) with affiliates of certain of the initial purchasers (Bank of America, N.A., Deutsche Bank AG, JPMorgan and Morgan Stanley) (the Option Counterparties). Pursuant to the Capped Call Transaction, the Operating Partnership will have the right to cause the Option Counterparties to deliver shares of the Company s common stock to the Operating Partnership upon exchange of the notes if the value per share of the Company s common stock, as measured under the terms of the Capped Call Transaction, at the time of settlement exceeds an initial strike price of approximately $117.58 per share, subject to certain adjustments similar to those contained in the notes. The Capped Call Transaction is intended to reduce the potential dilution upon future exchange of the notes in the event that the market value per share of the Company s common stock, as measured under the terms of the Capped Call Transaction, at the time of settlement is greater than the strike price of the Capped Call Transaction. If the market value per share of the Company s common stock, as measured under the terms of the Capped Call Transaction, at the time of settlement exceeds the cap price of the Capped Call Transaction (which is initially equal to approximately $137.17 per share), the dilution mitigation will be limited and there would be dilution to the extent that the market value per share of the Company s common stock exceeds the cap price. The Capped Call Transaction is expected to have the effect of increasing the effective exchange price to the Operating Partnership of the notes to the cap price of the Capped Call Transaction, which represents an initial effective premium of approximately 40% over the closing price of the Company s common stock on the New York Stock Exchange on August 13, 2008 of $97.98 per share. The Capped Call Transaction comprises separate contracts entered into by the Operating Partnership and the Company with the Option Counterparties and is not part of the terms of the notes and will not affect the holders rights under the notes. The net cost of the Capped Call Transaction was approximately $44.4 million, which was recorded as a reduction to stockholders equity.

7. Unsecured Line of Credit

On June 6, 2008, the Company s Operating Partnership utilized an accordion feature under its unsecured revolving credit facility (the Unsecured Line of Credit) with a consortium of lenders to increase the current lenders total commitment under the Unsecured Line of Credit from $605.0 million to $923.3 million. On July 21, 2008, the Company s Operating Partnership further increased the lenders total commitment from $923.3 million to $1.0 billion. All other material terms under the facility remain unchanged. The Company s Unsecured Line of Credit bears interest at a variable interest rate equal to Eurodollar plus 0.475% per annum and matures on August 3, 2010, with a provision for a one-year extension at the option of the Company, subject to certain conditions. The Unsecured Line of Credit is a recourse obligation of the Company s Operating Partnership. Under the Unsecured Line of Credit, a facility fee equal to 0.125% 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a negotiated LIBOR-based rate. The Company had an outstanding balance on the Unsecured Line of Credit of $319.0 million at September 30, 2008.

The terms of the Unsecured Line of Credit require that the Company maintain customary financial and other covenants on an ongoing basis, including: (1) a leverage ratio not to exceed 60%, however, the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an unsecured debt leverage ratio not to exceed 60%, however, the unsecured debt leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (5) a minimum net worth requirement, (6) an unsecured debt interest coverage ratio of at least 1.75 and (7) limitations on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties. At September 30, 2008, the Company was in compliance with each of these financial and other covenant requirements.

8. Commitments and Contingencies

General

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

The Company has letter of credit and performance obligations of approximately $46.1 million related to lender requirements, acquisition deposits 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.

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). Prior to TRIPRA, only acts of foreign terrorism could be certified for coverage under TRIA. Under TRIPRA, acts of both foreign and domestic terrorism can be certified for coverage under TRIA. Currently, the Company s property insurance program per occurrence limits are $1.0 billion for its portfolio insurance program, including coverage for both foreign and domestic acts of terrorism certified under TRIA. The Company currently insures certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York (767 Fifth Avenue), in separate stand alone insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are $1.625 billion, including coverage for both foreign and domestic acts of terrorism certified under TRIA, with $1.375 billion of coverage for losses in excess of $250 million being provided by NYXP, LLC, as a direct insurer. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage (NBCR Coverage) for both foreign and domestic acts of terrorism certified under TRIA, which is provided by IXP, LLC as a direct insurer, excluding the Company s Value-Added Fund properties. The per occurrence limit for NBCR Coverage is $1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage is

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 10%. 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 insurance in amounts and on terms that are commercially reasonable.

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

In January 2002, the Company formed a wholly-owned taxable REIT subsidiary, IXP, Inc., to act as a captive insurance company and be one of the elements of the Company s overall insurance program. On September 27, 2006, IXP, Inc. was merged into IXP, LLC, a wholly-owned subsidiary, and all insurance policies issued by IXP, Inc. were cancelled and reissued by IXP, LLC. The term IXP refers to IXP, Inc. for the period prior to September 27, 2006 and to IXP, LLC for the period on and subsequent to September 27, 2006. IXP acts as a direct insurer with respect to a portion of the Company s earthquake insurance coverage for its Greater San Francisco properties and the Company s NBCR Coverage for both foreign and domestic acts of terrorism certified under TRIA. In May 2008, the Company formed a wholly-owned subsidiary, NYXP, LLC (NYXP), to act as a captive insurance company and be one of the elements of the Company s insurance program for 767 Fifth Avenue. NYXP acts as a direct insurer with respect to a portion of the Company s coverage for both foreign and domestic acts of terrorism certified under TRIA 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.

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 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. Minority Interests

Minority interests relate to the interest in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of September 30, 2008, the minority interest in the Operating Partnership consisted of 20,195,785 OP Units, 946,369 LTIP Units, 1,085,861 2008 OPP Units and 1,113,044 Series Two Preferred Units (or 1,460,688 OP Units on an as converted basis) held by parties other than the Company.

The minority interests in property partnerships consist of the outside equity interests in ventures that are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in these ventures that are not owned by the Company, totaling approximately $13.3 million at September 30, 2008, are included in Minority Interests on the accompanying Consolidated Balance Sheets.

During the nine months ended September 30, 2008, 344,582 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 $7.2 million. The difference between the aggregate book value and the purchase price of these OP Units was approximately $17.6 million, which increased the recorded value of the Company s net assets.

On February 5, 2008, the Company issued 1,085,861 2008 OPP Units. Prior to the measurement date on February 5, 2011, 2008 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 2008 OPP Units, both vested and unvested, which 2008 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. For a complete description of the terms of the 2008 OPP Units (See Note 13).

On May 12, 2008, the Operating Partnership issued 150,000 OP Units to the selling entity as partial consideration for the Company s acquisition of the remaining development rights for its 250 West 55th Street development project located in New York City.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 9, 2008, the Operating Partnership issued 102,883 OP Units to the selling entity as partial consideration for the Company s acquisition of its interest in the General Motors Building located in New York City.

The Preferred Units at September 30, 2008 consisted solely of 1,113,044 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) an increasing rate, ranging from 5.00% to 7.00% per annum (7.00% for the nine months ended September 30, 2008 and 2007) on a liquidation preference of $50.00 per unit, and are convertible into OP Units at a rate of $38.10 per Preferred Unit (1.312336 OP Units for each Preferred Unit). Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

On January 30, 2008, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit to holders of record as of the close of business on December 31, 2007. In addition, the Operating Partnership paid a special cash distribution on the OP Units and LTIP Units in the amount of $5.98 per unit to holders of record as of the close of business on December 31, 2007. On April 30, 2008, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit and a distribution on the 2008 OPP Units in the amount of $0.068 per unit, in each case payable to holders of record as of the close of business on March 31, 2008. On July 31, 2008, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit and a distribution on the 2008 OPP Units in the amount of $0.068 per unit, in each case payable to holders of record as of the close of business on June 30, 2008.

Holders of Series Two Preferred Units participated in the $5.98 per unit special cash distribution on an as-converted basis in connection with their regular May 2008 distribution payment as provided for in the Operating Partnership s partnership agreement. At December 31, 2007, the Company had accrued approximately $8.7 million related to the $5.98 per unit special cash distribution payable to holders of the Series Two Preferred Units.

On February 15, 2008, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.89239 per unit. On May 15, 2008, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $8.7402 per unit, which amount included the impact of the special cash distribution described above. On August 15, 2008, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.89239 per unit.

On September 17, 2008, 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 and a distribution on the 2008 OPP Units in the amount of $0.068 per unit, in each case payable on October 31, 2008 to holders of record as of the close of business on September 30, 2008.

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. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. The value of the OP Units (not owned by the Company and including LTIP Units assuming that all conditions have been met for the conversion thereof) and Series Two Preferred Units had such units been redeemed at September 30, 2008 was approximately $1,980.2 million and $136.8 million, respectively, based on the closing price of the Company s common stock of $93.66 per share on September 30, 2008.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Stockholders Equity

As of September 30, 2008, the Company had 119,851,868 shares of Common Stock outstanding.

During the nine months ended September 30, 2008, the Company issued 344,582 shares of its Common Stock in connection with the redemption of an equal number of OP Units.

On January 30, 2008, 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 31, 2007. In addition, the Company paid a special cash dividend of $5.98 per share of Common Stock to shareholders of record as of the close of business on December 31, 2007. On April 30, 2008, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on March 31, 2008. On July 31, 2008, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on June 30, 2008.

On September 17, 2008, the Company s Board of Directors declared a dividend in the amount of $0.68 per share of Common Stock payable on October 31, 2008 to shareholders of record as of the close of business on September 30, 2008.

11. Held for Sale/Discontinued Operations

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

On January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million (See Note 3). At December 31, 2007, the Company had categorized the properties as Held for Sale in its Consolidated Balance Sheets. Due to the Company s continuing involvement through its ownership interest in the Value-Added Fund, these properties have not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations.

During the year ended December 31, 2007, the Company sold the following operating properties:

Orbital Sciences Campus and Broad Run Business Park, Building E, comprised of three Class A office properties aggregating approximately 337,000 net rentable square feet and an office/technical property totaling approximately 127,000 net rentable square feet, respectively, located in Loudon County, Virginia;

Democracy Center, a Class A office complex totaling approximately 685,000 net rentable square feet located in Bethesda, Maryland;

Newport Office Park, a Class A office property totaling approximately 172,000 net rentable square feet located in Quincy, Massachusetts;

Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts; and

5 Times Square, a Class A office property totaling approximately 1,102,000 net rentable square feet located in New York City.

BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Due to the Company s continuing involvement in the management, for a fee, of Democracy Center and 5 Times Square through agreements with the buyers, Democracy Center and 5 Times Square have not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. As a result, the gains on sales related to Democracy Center and 5 Times Square have been reflected under the caption Gains on sales of real estate, net of minority interest, in the Consolidated Statements of Operations. The Company has presented the other properties listed above as discontinued operations in its Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007, as applicable.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gains on sales of real estate from discontinued operations (net of minority interest) for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
Total revenue	$	$ 2,923	$	$ 18,052
Operating expenses		634		9,074
Depreciation and amortization		700		2,714
Minority interest in Operating Partnership		232		922
Income from discontinued operations (net of minority interest)	$	$ 1,357	$	$ 5,342
Realized gains on sales of real estate	$	$	$	$ 204,623
Minority interest in Operating Partnership				(30,724)
Realized gains on sales of real estate (net of minority interest)	$	$	$	$ 173,899

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

12. Earnings Per Share

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

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 and nine months ended September 30, 2008. For the three and nine months ended September 30, 2007, approximately $2.0 million and $12.3 million, respectively, was allocated to the Series Two Preferred Units in excess of distributions paid during the reporting period and is included in the Company s computation of basic and diluted earnings per share. Because the 2008 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 all contingently issuable 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, 2008		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income available to common shareholders	$ 48,506	119,832	$ 0.40
Effect of Dilutive Securities:			
Stock Based Compensation		1,537	(0.00)
Diluted Earnings:			
Net income	$ 48,506	121,369	$ 0.40

	For the three months ended September 30, 2007		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income available to common shareholders before discontinued operations and allocation of undistributed earnings of Series Two Preferred Units	$ 241,013	119,010	$ 2.03
Discontinued operations, net of minority interest	1,357		