

BOSTON PROPERTIES INC
Form 10-Q
May 06, 2010
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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, 2010 or

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

Commission File Number: 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

(Address of principal executive offices) (Zip Code)

(617) 236-3300

(Registrant's telephone number, including area code)

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

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

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

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

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

| | |
|--|------------------------------|
| Common Stock, par value \$.01 per share | 139,018,015 |
| (Class) | (Outstanding on May 3, 2010) |

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended March 31, 2010

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Table of Contents**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, 2010 | December 31, 2009 |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Real estate, at cost | \$ 9,823,024 | \$ 9,817,388 |
| Construction in process | 662,809 | 563,645 |
| Land held for future development | 730,201 | 718,525 |
| Less: accumulated depreciation | (2,103,274) | (2,033,677) |
| Total real estate | 9,112,760 | 9,065,881 |
| Cash and cash equivalents | 1,220,392 | 1,448,933 |
| Cash held in escrows | 20,848 | 21,867 |
| Investments in securities | 7,592 | 9,946 |
| Tenant and other receivables (net of allowance for doubtful accounts of \$1,947 and \$4,125, respectively) | 102,085 | 93,240 |
| Related party note receivable | 270,000 | 270,000 |
| Accrued rental income (net of allowance of \$2,224 and \$2,645, respectively) | 376,942 | 363,121 |
| Deferred charges, net | 291,564 | 294,395 |
| Prepaid expenses and other assets | 50,998 | 17,684 |
| Investments in unconsolidated joint ventures | 798,161 | 763,636 |
| Total assets | \$ 12,251,342 | \$ 12,348,703 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Mortgage notes payable | \$ 2,637,534 | \$ 2,643,301 |
| Unsecured senior notes (net of discount of \$2,475 and \$2,611, respectively) | 2,172,525 | 2,172,389 |
| Unsecured exchangeable senior notes (net of discount of \$13,504 and \$15,529, respectively) | 1,864,840 | 1,904,081 |
| Unsecured line of credit | | |
| Accounts payable and accrued expenses | 189,633 | 220,089 |
| Dividends and distributions payable | 80,756 | 80,536 |
| Accrued interest payable | 69,166 | 76,058 |
| Other liabilities | 115,755 | 127,538 |
| Total liabilities | 7,130,209 | 7,223,992 |
| Commitments and contingencies | | |
| Noncontrolling interest: | | |
| Redeemable preferred units of the Operating Partnership | 55,652 | 55,652 |
| Equity: | | |
| Stockholders' equity attributable to Boston Properties, Inc.: | | |
| Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding | | |
| Preferred stock, \$.01 par value, 50,000,000 shares authorized, none issued or outstanding | | |
| Common stock, \$.01 par value, 250,000,000 shares authorized, 139,082,895 and 138,958,910 issued and 139,003,995 and 138,880,010 outstanding in 2010 and 2009, respectively | 1,390 | 1,389 |

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| | | |
|--|---------------|---------------|
| Additional paid-in capital | 4,381,075 | 4,373,679 |
| Earnings in excess of dividends | 78,645 | 95,433 |
| Treasury common stock at cost, 78,900 shares in 2010 and 2009 | (2,722) | (2,722) |
| Accumulated other comprehensive loss | (21,145) | (21,777) |
| | | |
| Total stockholders' equity attributable to Boston Properties, Inc. | 4,437,243 | 4,446,002 |
| Noncontrolling interests: | | |
| Common units of the Operating Partnership | 622,263 | 617,386 |
| Property partnerships | 5,975 | 5,671 |
| | | |
| Total equity | 5,065,481 | 5,069,059 |
| | | |
| Total liabilities and equity | \$ 12,251,342 | \$ 12,348,703 |

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

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

| | Three months ended March 31, | |
|--|---|-------------|
| | 2010 | 2009 |
| | (in thousands, except for per share amounts) | |
| Revenue | | |
| Rental: | | |
| Base rent | \$ 302,383 | \$ 293,517 |
| Recoveries from tenants | 45,544 | 52,408 |
| Parking and other | 15,297 | 16,941 |
| Total rental revenue | 363,224 | 362,866 |
| Hotel revenue | 5,903 | 6,062 |
| Development and management services | 8,944 | 8,296 |
| Interest and other | 1,710 | 320 |
| Total revenue | 379,781 | 377,544 |
| Expenses | | |
| Real estate operating: | | |
| Rental | 124,985 | 123,861 |
| Hotel | 5,268 | 5,472 |
| General and administrative | 26,822 | 17,420 |
| Interest | 92,029 | 78,930 |
| Depreciation and amortization | 83,075 | 77,370 |
| Loss (gain) from suspension of development | (7,200) | 27,766 |
| Losses from early extinguishments of debt | 2,170 | |
| Losses (gains) from investments in securities | (200) | 587 |
| Total expenses | 326,949 | 331,406 |
| Income before income from unconsolidated joint ventures, gains on sales of real estate and net income attributable to noncontrolling interests | 52,832 | 46,138 |
| Income from unconsolidated joint ventures | 7,910 | 5,097 |
| Gains on sales of real estate | 1,765 | 2,795 |
| Net income | 62,507 | 54,030 |
| Net income attributable to noncontrolling interests: | | |
| Noncontrolling interests in property partnerships | (804) | (510) |
| Noncontrolling interest common units of the Operating Partnership | (7,870) | (7,531) |
| Noncontrolling interest in gains on sales of real estate common units of the Operating Partnership | (227) | (401) |
| Noncontrolling interest redeemable preferred units of the Operating Partnership | (892) | (990) |
| Net income attributable to Boston Properties, Inc. | \$ 52,714 | \$ 44,598 |
| Basic earnings per common share attributable to Boston Properties, Inc.: | | |
| Net income | \$ 0.38 | \$ 0.37 |

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| | | |
|--|---------|---------|
| Weighted average number of common shares outstanding | 138,931 | 121,256 |
| Diluted earnings per common share attributable to Boston Properties, Inc.: | | |
| Net income | \$ 0.38 | \$ 0.37 |
| Weighted average number of common and common equivalent shares outstanding | 139,597 | 121,468 |

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, | |
| | 2010 | 2009 |
| | (in thousands) | |
| Net income | \$ 62,507 | \$ 54,030 |
| Other comprehensive income: | | |
| Amortization of interest rate contracts | 726 | 714 |
| Comprehensive income | 63,233 | 54,744 |
| Comprehensive income attributable to noncontrolling interests | (9,886) | (9,535) |
| Comprehensive income attributable to Boston Properties, Inc. | \$ 53,347 | \$ 45,209 |

The accompanying notes are an integral part of these financial statements

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

| | For the three months ended March 31, | |
|--|---|-----------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 62,507 | \$ 54,030 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 83,075 | 77,370 |
| Non-cash portion of interest expense | 10,924 | 13,606 |
| Non-cash compensation expense | 14,011 | 7,094 |
| Losses from early extinguishments of debt | 2,170 | |
| Losses (gains) from investments in securities | (200) | 587 |
| Loss (gain) from suspension of development | (7,200) | 27,766 |
| Income from unconsolidated joint ventures | (7,910) | (5,097) |
| Distributions of net cash flow from operations of unconsolidated joint ventures | 900 | 1,850 |
| Gains on sales of real estate | (1,765) | (2,795) |
| Change in assets and liabilities: | | |
| Cash held in escrows | 1,019 | 2,550 |
| Tenant and other receivables, net | (267) | 7,540 |
| Accrued rental income, net | (13,821) | (14,526) |
| Prepaid expenses and other assets | (33,314) | (25,263) |
| Accounts payable and accrued expenses | (23,522) | (223) |
| Accrued interest payable | (6,892) | (16,803) |
| Other liabilities | (10,018) | (12,394) |
| Tenant leasing costs | (9,603) | (5,156) |
| Total adjustments | (2,413) | 56,106 |
| Net cash provided by operating activities | 60,094 | 110,136 |
| Cash flows from investing activities: | | |
| Additions to real estate | (119,407) | (91,368) |
| Proceeds from redemptions of investments in securities | 2,554 | 1,595 |
| Net investments in unconsolidated joint ventures | (36,093) | (3,141) |
| Net cash used in investing activities | (152,946) | (92,914) |

The accompanying notes are an integral part of these financial statements

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

| | For the three months ended March 31, | |
|---|---|------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Cash flows from financing activities: | | |
| Proceeds from mortgage notes payable | 1,464 | 16,424 |
| Repayments of mortgage notes payable | (7,231) | (7,361) |
| Repurchases of unsecured exchangeable senior notes | (49,320) | |
| Dividends and distributions | (80,951) | (97,652) |
| Net proceeds from equity transactions | 849 | 521 |
| Distributions to noncontrolling interests in property partnerships, net | (500) | (1,750) |
| Repayment of note payable | | (25,000) |
| Deferred financing costs | | (125) |
| Net cash used in financing activities | (135,689) | (114,943) |
| Net decrease in cash and cash equivalents | (228,541) | (97,721) |
| Cash and cash equivalents, beginning of period | 1,448,933 | 241,510 |
| Cash and cash equivalents, end of period | \$ 1,220,392 | \$ 143,789 |
| Supplemental disclosures: | | |
| Cash paid for interest | \$ 96,084 | \$ 94,237 |
| Interest capitalized | \$ 8,087 | \$ 12,110 |
| Non-cash investing and financing activities: | | |
| Additions to real estate included in accounts payable | \$ 104 | \$ 19,336 |
| Dividends and distributions declared but not paid | \$ 80,756 | \$ 97,547 |
| Conversions of noncontrolling interests to stockholders' equity | \$ 978 | \$ 855 |
| Issuance of restricted securities to employees and directors | \$ 18,768 | \$ 21,619 |

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 March 31, 2010 owned an approximate 85.9% (84.2% at March 31, 2009) 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.

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership is obligated to redeem such OP Unit for cash equal to the 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 7).

At March 31, 2010, 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 or redeemed for cash at the election of the holder thereof or the Operating Partnership in accordance with the terms and conditions set forth in the applicable amendment to the partnership agreement (See Note 7).

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 March 31, 2010, the Company owned or had interests in a portfolio of 143 commercial real estate properties (the Properties) aggregating approximately 37.6 million net rentable square feet, including five properties under construction totaling approximately 2.0 million net rentable square feet. In addition, the Company has structured parking for approximately 38,017 vehicles containing approximately 12.8 million square feet. At March 31, 2010, the Properties consist of:

137 office properties, including 118 Class A office properties (including three properties under construction) and 19 Office/Technical properties;

one hotel;

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

three retail properties; and

two residential properties (both of which are under construction).

The Company owns or controls undeveloped land parcels totaling approximately 510.1 acres. In addition, the Company has a noncontrolling interest in the Boston Properties Office Value-Added Fund, L.P. (the Value-Added Fund), which is a strategic partnership with two institutional investors through which the Company has pursued the acquisition of value-added investments in assets within its existing markets. The Company accounts for its investment in the Value-Added Fund using the equity method of accounting. 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, 2010, 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, 2009.

For purposes of financial reporting disclosures, the Company calculates the fair value of mortgage notes payable, unsecured senior notes and unsecured exchangeable senior notes. The Company discounts the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt and unsecured notes based on a current market rate. In determining the current market rate, the Company adds its estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to its debt. Because the Company's valuations of its financial instruments are based on these types of

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estimates, the actual fair values of its financial instruments may differ materially if the Company's estimates do not prove to be accurate. The following table presents the aggregate carrying value of the Company's indebtedness and the Company's corresponding estimate of fair value as of March 31, 2010 (in thousands):

| | Carrying Amount | Estimated Fair Value |
|-------------------------------------|----------------------------|---------------------------------|
| Mortgage notes payable | \$ 2,637,534 | \$ 2,643,607 |
| Unsecured senior notes | 2,172,525 | 2,340,146 |
| Unsecured exchangeable senior notes | 1,864,840(1) | 2,035,029 |
| Total | \$ 6,674,899 | \$ 7,018,782 |

(1) Includes the net impact of the adjustment for the equity component allocation totaling approximately \$128.1 million (See Note 5).

3. Real Estate Activity During the Three Months Ended March 31, 2010***Development***

On February 6, 2009, the Company announced that it was suspending construction on its 1,000,000 square foot office building at 250 West 55th Street in New York City. During the first quarter of 2009, the Company recognized costs aggregating approximately \$27.8 million related to the suspension of development, which amount included a \$20.0 million contractual amount due pursuant to a lease agreement. During December 2009, the Company completed the construction of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. On January 19, 2010, the Company paid \$12.8 million related to the termination of the lease agreement. As a result, the Company recognized approximately \$7.2 million of income during the first quarter of 2010.

Dispositions

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 was deferred and has been recognized over the project construction period generally based on the percentage of total project costs incurred to estimated total project costs. During the three months ended March 31, 2010, the Company completed construction of the project and recognized the remaining gain on sale totaling approximately \$1.8 million. The Company has recognized a cumulative gain on sale of approximately \$23.4 million.

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The investments in unconsolidated joint ventures consists of the following at March 31, 2010:

| Entity | Properties | Nominal % Ownership |
|--|---|--------------------------------|
| Square 407 Limited Partnership | Market Square North | 50.0% |
| The Metropolitan Square Associates LLC | Metropolitan Square | 51.0% |
| BP/CRF 901 New York Avenue LLC | 901 New York Avenue | 25.0%(1) |
| WP Project Developer LLC | Wisconsin Place Land and Infrastructure | 23.9%(2) |
| Wisconsin Place Retail LLC | Wisconsin Place Retail | 5.0% |
| Eighth Avenue and 46 th Street Entities | Eighth Avenue and 46 th 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%(1)(4) |
| Annapolis Junction NFM, LLC | Annapolis Junction | 50.0%(5) |
| 767 Venture, LLC | The General Motors Building | 60.0% |
| 2 GCT Venture LLC | Two Grand Central Tower | 60.0% |
| 540 Madison Venture LLC | 540 Madison Avenue | 60.0% |
| 125 West 55 th Street Venture LLC | 125 West 55 th Street | 60.0% |

- (1) The Company's economic ownership can increase based on the achievement of certain return thresholds.
 - (2) 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 owning the land and infrastructure of the project.
 - (3) This property is not in operation and consists of assembled land.
 - (4) 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.
 - (5) Two of the three Annapolis Junction land parcels are undeveloped land.
- 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.

Table of Contents**BOSTON PROPERTIES, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | March 31, 2010 | December 31, 2009 |
|--|---------------------|----------------------|
| | (in thousands) | |
| ASSETS | | |
| Real estate and development in process, net | \$ 5,123,746 | \$ 5,149,868 |
| Other assets | 761,222 | 760,001 |
| Total assets | \$ 5,884,968 | \$ 5,909,869 |
| LIABILITIES AND MEMBERS /PARTNERS EQUITY | | |
| Mortgage and notes payable | \$ 3,164,247 | \$ 3,217,893 |
| Other liabilities | 1,041,368 | 1,071,904 |
| Members /Partners equity | 1,679,353 | 1,620,072 |
| Total liabilities and members /partners equity | \$ 5,884,968 | \$ 5,909,869 |
| Company s share of equity | \$ 959,432 | \$ 927,184 |
| Basis differentials(1) | (161,271) | (163,548) |
| Carrying value of the Company s investments in unconsolidated joint ventures | \$ 798,161 | \$ 763,636 |

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

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

| | For the three months ended March 31, | |
|-------------------------------|---|--------------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Total revenue(1) | \$ 150,962 | \$ 145,380 |
| Expenses | | |
| Operating | 41,704 | 41,733 |
| Interest | 58,336 | 56,344 |
| Depreciation and amortization | 56,824 | 57,540 |
| Total expenses | 156,864 | 155,617 |
| Net loss | \$ (5,902) | \$ (10,237) |

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| | | |
|--|------------|------------|
| Company's share of net loss | \$ (2,945) | \$ (5,302) |
| Basis differential | 2,277 | 2,587 |
| Elimination of inter-entity interest on partner loan | 8,578 | 7,812 |
| Income from unconsolidated joint ventures | \$ 7,910 | \$ 5,097 |

- (1) Includes straight-line rent adjustments of \$8.2 million and \$5.3 million for the three months ended March 31, 2010 and 2009, respectively. Includes above and below market rent adjustments of \$36.8 million and \$37.9 million for the three months ended March 31, 2010 and 2009, respectively.

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On March 1, 2010, a joint venture in which the Company has a 60% interest refinanced at maturity its mortgage loan collateralized by 125 West 55th Street located in New York City. The mortgage loan totaling \$200.0 million bore interest at a fixed rate of 5.75% per annum. The new mortgage loan totaling \$207.0 million bears interest at a fixed rate of 6.09% per annum and matures on March 10, 2015. In connection with the new mortgage loan, the Company has guaranteed the joint venture's obligation to fund an escrow related to certain lease rollover costs in lieu of an initial cash deposit for the full amount. The maximum funding obligation under the guarantee was \$21.3 million. At closing, the joint venture funded a \$10.0 million cash deposit into the escrow account and the remaining \$11.3 million will be further reduced with scheduled monthly deposits into the escrow account from operating cash flows. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee. In addition, on February 25, 2010, the joint venture repaid outstanding mezzanine loans totaling \$63.5 million utilizing available cash and cash contributions from the joint venture's partners on a pro rata basis. The mezzanine loans bore interest at a weighted-average fixed rate of approximately 7.81% per annum and were scheduled to mature on March 1, 2010.

5. Unsecured Exchangeable Senior Notes

The following summarizes the unsecured exchangeable senior notes outstanding as of March 31, 2010 (dollars in thousands):

| | Coupon/ Stated Rate | Effective Rate(1) | Exchange Rate | Principal Amount | First Optional Redemption Date by Company | Maturity Date |
|---|------------------------|----------------------|------------------|---------------------|---|-------------------|
| 3.625% Exchangeable Senior Notes | 3.625% | 4.037% | 8.5051(2) | \$ 747,500 | N/A | February 15, 2014 |
| 2.875% Exchangeable Senior Notes | 2.875% | 3.462% | 7.0430(3) | 808,961 | February 20, 2012(4) | February 15, 2037 |
| 3.750% Exchangeable Senior Notes | 3.750% | 3.787% | 10.0066(5) | 450,000 | May 18, 2013(6) | May 15, 2036 |
| Total principal | | | | 2,006,461 | | |
| Net discount | | | | (13,504) | | |
| Adjustment for the equity component allocation, net of accumulated amortization | | | | (128,117) | | |
| Total | | | | \$ 1,864,840 | | |

- (1) Yield on issuance date including the effects of discounts on the notes but excluding the effects of the adjustment for the equity component allocation.
- (2) The initial exchange rate is 8.5051 shares per \$1,000 principal amount of the notes (or an initial exchange price of approximately \$117.58 per share of Boston Properties, Inc.'s Common Stock). In addition, the Company entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions are intended to increase the effective exchange price to the Company of the notes from \$117.58 to approximately \$137.17 per share (subject to adjustment), representing an overall effective premium of approximately 40% over the closing price on August 13, 2008 of \$97.98 per share of Boston Properties, Inc.'s Common Stock. The net cost of the capped call transactions was approximately \$44.4 million.

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- (3) In connection with the special distribution of \$5.98 per share of Boston Properties, Inc.'s Common Stock declared on December 17, 2007, the exchange rate was adjusted from 6.6090 to 7.0430 shares per \$1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately \$141.98 per share of Boston Properties, Inc.'s Common Stock.
- (4) Holders may require the Operating Partnership to repurchase for cash the notes on February 15, 2012, 2017, 2022, 2027 and 2032 and at any time prior to their maturity upon a fundamental change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurchase date.
- (5) In connection with the special distribution of \$5.98 per share of Boston Properties, Inc.'s Common Stock declared on December 17, 2007, the exchange rate was adjusted from 9.3900 to 10.0066 shares per \$1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately \$99.93 per share of Boston Properties, Inc.'s Common Stock.
- (6) Holders may require the Operating Partnership to repurchase for cash the notes on May 18, 2013 and May 15 of 2016, 2021, 2026 and 2031 and at any time prior to their maturity upon a fundamental change, in each case at a price equal to 100% of the principal amount of the notes being repurchased plus any accrued and unpaid interest up to, but excluding, the repurchase date.

The Company has separately accounted for the liability and equity components of the Operating Partnership's \$862.5 million of 2.875% exchangeable senior notes due 2037, \$450.0 million of 3.75% exchangeable senior notes due 2036 and \$747.5 million of 3.625% exchangeable senior notes due 2014 by allocating the initial proceeds from the sale between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Operating Partnership at such time. The Company measured the fair value of the debt components of the 2.875%, 3.75% and 3.625% exchangeable senior notes for the periods presented based on effective interest rates of 5.630%, 5.958% and 6.555%, respectively. The aggregate carrying amount of the debt component was approximately \$1.86 billion and \$1.90 billion (net of the adjustment for the equity component allocation (net of accumulated amortization) of approximately \$128.1 million and \$140.4 million) at March 31, 2010 and December 31, 2009, respectively. As a result, the Company attributed an aggregate of approximately \$230.3 million of the proceeds to the equity component of the notes, which represents the excess proceeds received over the fair value of the notes at the date of issuance. The Company also reclassified approximately \$1.0 million of deferred financing costs to Additional Paid-in Capital, which represented the costs attributable to the equity components of the notes. The equity component of the notes has been reflected within Additional Paid-in Capital in the Consolidated Balance Sheets. The carrying amount of the equity component was approximately \$229.3 million at March 31, 2010 and December 31, 2009. The resulting debt discount will be amortized over the period during which the debt is expected to be outstanding (i.e., through the first optional redemption dates or, in the case of the 2014 notes, the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to each debt security will increase in subsequent reporting periods through the first optional redemption date (or, in the case of the 2014 notes, the maturity date) as the debt accretes to its par value over the same period. The aggregate contractual interest expense was approximately \$18.5 million and \$18.5 million for the three months ended March 31, 2010 and 2009, respectively. As a result of accounting for the exchangeable senior notes in a manner that reflects the Company's nonconvertible debt borrowing rate, the Company reported additional non-cash interest expense of approximately \$10.1 million and \$9.4 million for the three months ended March 31, 2010 and 2009, respectively.

During the first quarter of 2010, the Company's Operating Partnership repurchased approximately \$53.6 million aggregate principal amount of its 2.875% exchangeable senior notes due 2037 for approximately \$53.0 million. The repurchased notes had an aggregate carrying value of approximately \$50.8 million, resulting in the recognition of a loss on extinguishment of approximately \$2.2 million (See Note 12).

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