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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 June 30, 2001**
**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)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction<br>of incorporation or organization) | **04-2473675**<br>(IRS Employer Identification No.) |
| **800 Boylston Street**<br>**Boston, Massachusetts**<br>(Address of principal executive offices) | **02199**<br><br>(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

| | |
|---|---|
| **Common Stock, Par Value $.01**<br>**(Class)** | **90,548,004**<br>**(Outstanding on August 10, 2001)** |

**BOSTON PROPERTIES, INC.**
**FORM 10-Q**
**for the quarter ended June 30, 2001**

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**BOSTON PROPERTIES, INC.**

**CONSOLIDATED BALANCE SHEETS**

| | June 30, 2001 | December 31, 2000 |
|---|---|---|
| | (unaudited) (in thousands, except for share amounts) | |
| ASSETS | | |
| Real estate: | $ 7,165,977 | $ 6,112,779 |
| Less: accumulated depreciation | (647,881) | (586,719) |
| Total real estate | 6,518,096 | 5,526,060 |
| Cash and cash equivalents | 165,764 | 280,957 |
| Escrows | 31,577 | 85,561 |
| Investments in securities | 4,297 | 7,012 |
| Tenant and other receivables | 26,337 | 26,852 |
| Accrued rental income | 104,304 | 91,684 |
| Deferred charges, net | 100,804 | 77,319 |
| Prepaid expenses and other assets | 47,962 | 41,154 |
| Investments in unconsolidated joint ventures | 94,155 | 89,871 |
| Total assets | $ 7,093,296 | $ 6,226,470 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Mortgage notes and bonds payable | $ 4,177,670 | $ 3,414,891 |
| Accounts payable and accrued expenses | 61,248 | 57,338 |
| Dividends and distributions payable | 78,241 | 71,274 |
| Interest rate contracts | 19,045 | — |
| Accrued interest payable | 12,067 | 5,599 |
| Other liabilities | 53,365 | 51,926 |
| Total liabilities | 4,401,636 | 3,601,028 |
| Commitments and contingencies | — | — |
| Minority interests | 851,868 | 877,715 |
| Series A Convertible Redeemable Preferred Stock, liquidation preference $50.00 per share, 2,000,000 shares issued and outstanding | 100,000 | 100,000 |
| Stockholders' equity: | | |
| Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding | — | — |
| Common stock, $.01 par value, 250,000,000 shares authorized, 90,350,510 and 86,630,089 issued and outstanding in 2001 and 2000, respectively | 904 | 866 |
| Additional paid-in capital | 1,774,335 | 1,673,349 |
| Dividends in excess of earnings | (19,193) | (13,895) |
| Unearned compensation | (2,386) | (848) |
| Accumulated other comprehensive loss | (13,868) | (11,745) |
| Total stockholders' equity | 1,739,792 | 1,647,727 |
| Total liabilities and stockholders' equity | $ 7,093,296 | $ 6,226,470 |

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

## BOSTON PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Six months ended June 30, 2001 | Six months ended June 30, 2000 |
|---|---|---|
| | (unaudited and in thousands, except for per share amounts) | |
| Revenue | | |
| Rental: | | |
| Base rent | $ 393,762 | $ 348,290 |
| Recoveries from tenants | 53,444 | 46,070 |
| Parking and other | 27,279 | 25,297 |
| Total rental revenue | 474,485 | 419,657 |
| Development and management services | 6,507 | 5,739 |
| Interest and other | 8,733 | 2,117 |
| Total revenue | 489,725 | 427,513 |
| Expenses | | |
| Operating | 147,208 | 129,212 |
| General and administrative | 19,830 | 15,997 |
| Interest | 103,723 | 111,458 |
| Depreciation and amortization | 71,415 | 64,626 |
| Loss on investments in securities | 6,500 | — |
| Total expenses | 348,676 | 321,293 |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | 141,049 | 106,220 |
| Net derivative losses | (7,788) | — |
| Minority interests in property partnerships | 255 | (436) |
| Income from unconsolidated joint ventures | 1,844 | 807 |
| Income before minority interest in Operating Partnership | 135,360 | 106,591 |
| Minority interest in Operating Partnership | (37,162) | (37,745) |
| Income before gain on sales of real estate | 98,198 | 68,846 |
| Gain on sales of real estate, net of minority interest | 6,505 | 297 |
| Income before cumulative effect of a change in accounting principle | 104,703 | 69,143 |
| Cumulative effect of a change in accounting principle, net of minority interest | (6,767) | — |
| Net income before preferred dividend | 97,936 | 69,143 |
| Preferred dividend | (3,291) | (3,286) |
| Net income available to common shareholders | $ 94,645 | $ 65,857 |
| Basic earnings per share: | | |
| Income before gain on sales of real estate and cumulative effect of a change in accounting principle | $ 1.06 | $ 0.97 |
| Gain on sales of real estate, net of minority interest | 0.07 | — |
| Cumulative effect of a change in accounting principle, net of minority interest | (0.07) | — |
| Net income available to common shareholders | $ 1.06 | $ 0.97 |
| Weighted average number of common shares outstanding | 89,365 | 67,973 |
| Diluted earnings per share: | | |
| Income before gain on sales of real estate and cumulative effect of a change in accounting principle | $ 1.03 | $ 0.96 |
| Gain on sales of real estate, net of minority interest | 0.07 | — |
| Cumulative effect of a change in accounting principle, net of minority interest | (0.07) | — |
| Net income available to common shareholders | $ 1.03 | $ 0.96 |
| Weighted average number of common and common equivalent shares outstanding | 91,739 | 69,157 |

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

**BOSTON PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three months ended June 30, 2001 | Three months ended June 30, 2000 |
|---|---|---|
| | (unaudited and in thousands, except for per share amounts) | |
| Revenue | | |
| Rental: | | |
| Base rent | $ 208,071 | $ 177,953 |
| Recoveries from tenants | 27,266 | 22,734 |
| Parking and other | 13,533 | 12,289 |
| Total rental revenue | 248,870 | 212,976 |
| Development and management services | 3,110 | 2,876 |
| Interest and other | 4,289 | 1,407 |
| Total revenue | 256,269 | 217,259 |
| Expenses | | |
| Operating | 76,865 | 64,035 |
| General and administrative | 9,880 | 8,589 |
| Interest | 55,870 | 56,243 |
| Depreciation and amortization | 36,675 | 32,395 |
| Loss on investments in securities | 6,500 | — |
| Total expenses | 185,790 | 161,262 |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | 70,479 | 55,997 |
| Net derivative losses | (4,733) | — |
| Minority interests in property partnerships | 510 | (240) |
| Income from unconsolidated joint ventures | 717 | 662 |
| Income before minority interest in Operating Partnership | 66,973 | 56,419 |
| Minority interest in Operating Partnership | (18,138) | (20,193) |
| Income before gain on sales of real estate | 48,835 | 36,226 |
| Gain on sales of real estate, net of minority interest | 1,851 | 297 |
| Net income before preferred dividend | 50,686 | 36,523 |
| Preferred dividend | (1,648) | (1,643) |
| Net income available to common shareholders | $ 49,038 | $ 34,880 |
| Basic earnings per share: | | |
| Income before gain on sales of real estate | $ 0.52 | $ 0.50 |
| Gain on sales of real estate, net of minority interest | 0.02 | 0.01 |
| Net income available to common shareholders | $ 0.54 | $ 0.51 |
| Weighted average number of common shares outstanding | 89,990 | 67,991 |
| Diluted earnings per share: | | |
| Income before gain on sales of real estate | $ 0.51 | $ 0.50 |
| Gain on sales of real estate, net of minority interest | 0.02 | — |
| Net income available to common shareholders | $ 0.53 | $ 0.50 |
| Weighted average number of common and common equivalent shares outstanding | 92,274 | 69,582 |

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

**BOSTON PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three months ended June 30, 2001 | Three months ended June 30, 2000 | Six months ended June 30, 2001 | Six months ended June 30, 2000 |
|---|---|---|---|---|
| | (unaudited and in thousands) | | | |
| Net income available to common shareholders | $ 49,038 | $ 34,880 | $ 94,645 | $ 65,857 |
| Other comprehensive income (loss): | | | | |
| Realized loss on investments in securities included in net income available to common shareholders | 6,500 | — | 6,500 | — |
| Unrealized gains (losses) on investments in securities: | | | | |
| Unrealized holding gains (losses) arising during the period | (971) | (49,035) | (1,608) | 9,528 |
| Less: reclassification adjustment for the cumulative effect of a change in accounting principle included in net income available to common shareholders | — | — | 6,853 | — |
| Unrealized derivative losses: | | | | |
| Transition adjustment of interest rate contracts | — | — | (11,414) | — |
| Effective portion of interest rate contracts | — | — | (2,454) | — |
| Other comprehensive income (loss) | 5,529 | (49,035) | (2,123) | 9,528 |
| Comprehensive income (loss) | $ 54,567 | $ (14,155) | $ 92,522 | $ 75,385 |

The accompanying notes are an integral part of these financial statements



**BOSTON PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the six months ended June 30, 2001 | For the six months ended June 30, 2000 |
|---|---|---|
| | (unaudited and in thousands) | |
| Cash flows from operating activities: | | |
| Net income before preferred dividend | $ 97,936 | $ 69,143 |
| Adjustments to reconcile net income before preferred dividend to net cash provided by operating activities: | | |
| Depreciation and amortization | 71,415 | 64,626 |
| Non-cash portion of interest expense | 1,818 | 1,989 |
| Gain on sales of real estate | (8,079) | (403) |
| Cumulative effect of a change in accounting principle | 8,432 | — |
| Loss on investments in securities | 6,500 | — |
| Non-cash portion of derivative losses | 4,707 | — |
| Earnings in excess of distributions from unconsolidated joint ventures | (1,360) | (807) |
| Non-cash compensation expense | 289 | 106 |
| Minority interest in Operating Partnership | 37,071 | 37,851 |
| Minority interest in property partnerships | (255) | 436 |
| Change in assets and liabilities: | | |
| Escrows | (3,626) | 7,229 |
| Tenant and other receivables | 515 | (3,978) |
| Accrued rental income | (12,771) | (6,915) |
| Prepaid expenses and other assets | (2,986) | 2,165 |
| Accounts payable and accrued expenses | 4,201 | (14,534) |
| Accrued interest payable | 6,468 | (2,359) |
| Other liabilities | 1,439 | 2,215 |
| Tenant leasing costs | (9,903) | (11,131) |
| Total adjustments | 103,875 | 76,490 |
| Net cash provided by operating activities | 201,811 | 145,633 |

| | | |
|---|---|---|
| Cash flows from investing activities: | | |
| Acquisitions/additions to real estate | (1,029,984) | (200,506) |
| Deposits on real estate, net | (4,251) | (13,223) |
| Investments in unconsolidated joint ventures | (2,924) | 4,742 |
| Net proceeds from the sales of real estate | 14,187 | 46,713 |
| Investments in securities | — | (2,295) |
| Net cash used in investing activities | (1,022,972) | (164,569) |

The accompanying notes are an integral part of these financial statements



| | For the six months ended June 30, 2001 | 2000 |
|---|---|---|
| | (unaudited and in thousands) | |
| Cash flows from financing activities: | | |
| Borrowings on unsecured line of credit | 111,200 | 96,000 |
| Repayments of unsecured line of credit | (111,200) | (224,000) |
| Repayments of mortgage notes | (67,452) | (161,092) |
| Proceeds from mortgage notes | 829,881 | 411,662 |
| Bonds payable proceeds released from escrow | 57,610 | — |
| Dividends and distributions | (132,267) | (96,578) |
| Proceeds from stock transactions | 3,657 | 1,284 |
| Contributions from minority interest holder | 39,383 | — |
| Deferred financing costs | (24,844) | (14,056) |
| Net cash provided by financing activities | 705,968 | 13,220 |
| Net decrease in cash and cash equivalents | (115,193) | (5,716) |
| Cash and cash equivalents, beginning of period | 280,957 | 12,035 |
| Cash and cash equivalents, end of period | $ 165,764 | $ 6,319 |
| Supplemental disclosures: | | |
| Cash paid for interest | $ 127,250 | $ 128,498 |
| Interest capitalized | $ 31,813 | $ 17,039 |
| Non-cash investing and financing activities: | | |
| Additions to real estate included in accounts payable | $ (1,208) | $ 1,788 |
| Mortgage notes payable assumed in connection with the acquisition of real estate | $ — | $ 117,831 |
| Mortgage notes payable assigned in connection with the sale of real estate | $ — | $ 166,547 |
| Issuance of minority interest in connection with the acquisition of real estate | $ — | $ 20,467 |
| Dividends and distributions declared but not paid | $ 78,241 | $ 59,812 |
| Conversions of Minority Interest to Stockholders' Equity | $ 112,069 | $ 116 |
| Basis adjustment in connection with conversions of Minority Interest to Stockholders' Equity | $ 32,432 | $ — |
| Issuance of restricted shares to employees | $ 1,827 | $ 1,060 |
| Unrealized gain related to investments in securities | $ — | $ 9,528 |

The accompanying notes are an integral part of these 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 June 30, 2001, owned an approximate 75% general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as "common units of partnership interest" (also referred to as "OP Units") or "preferred units of partnership interest" (also referred to as "Preferred Units"). All references to OP Units and Preferred Units exclude such units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon the issuance of OP Units to particular holders that may restrict such right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company ("Common Stock"), except that, the Company may, at its election, in lieu of a cash redemption, acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. Each series of Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be convertible into OP Units at the election of the holder thereof or the Company.

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

To assist the Company in maintaining its status as a REIT, the Company leases its three hotel properties, pursuant to a lease with a participation in the gross receipts of such hotel properties, to a lessee ("ZL Hotel LLC") in which Messrs. Zuckerman and Linde, the Chairman of the Board and Chief Executive Officer, respectively, are the sole member-managers. Messrs. Zuckerman and Linde have a 9.8% economic interest in such lessee and one or more unaffiliated public charities have a 90.2% economic interest. Marriott International, Inc. manages these hotel properties under the Marriott® name pursuant to a management agreement with the lessee. Under the REIT requirements, revenue from a hotel are not considered to be rental income for purposes of certain income tests that a REIT must meet. Accordingly, in order to maintain its qualification as a REIT, the Company has entered into the participating leases described above to provide revenue that qualifies as rental income under the REIT requirements.

As of June 30, 2001, the Company and the Operating Partnership had 90,350,510 and 20,382,462 shares of Common Stock and OP Units outstanding, respectively. In addition, the Company had 2,000,000 shares of Preferred Stock and the Operating Partnership had 9,346,033 Preferred Units outstanding.

The Properties:

As of June 30, 2001, the Company owns a portfolio of 145 commercial real estate properties (145 and 142 properties at December 31, 2000 and June 30, 2000, respectively) (the "Properties") aggregating over 40.6 million square feet. The properties consist of 137 office properties with



approximately 33.0 million net rentable square feet (including 13 properties under development expected to contain approximately 5.1 million net rentable square feet) and approximately 6.0 million additional square feet of structured parking for 17,645 vehicles, five industrial properties with approximately 0.6 million net rentable square feet, and three hotels with a total of 1,054 rooms (consisting of approximately 1.0 million square feet). In addition, the Company owns, has under contract, or has an option to acquire 48 parcels of land totaling approximately 556.9 acres, which will support approximately 9.6 million square feet of development.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

The consolidated financial statements of the Company include all the accounts of the Company, its majority-owned Operating Partnership and subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's annual report on Form 10-K for its fiscal year ended December 31, 2000.

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

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

**3. Real Estate Activity During the Quarter Ended June 30, 2001**

On April 25, 2001, the Company closed on the acquisition of the approximately 1.6 million square foot office tower in New York City known as Citigroup Center. The acquisition was completed through a venture with a third party private real estate investment company. The total acquisition cost of approximately $755 million, was funded through new mortgage financing totaling $525 million, equity contributions of $195 million from Boston Properties and the balance from the third party private real estate investment company. This venture is consolidated as the Company exercises control over the entity that owns the property

On June 29, 2001, the Company disposed of Maryland Industrial Park, Buildings Two and Three, consisting of two industrial buildings totaling approximately 183,945 square feet, for net proceeds of approximately $7.6 million, resulting in a gain on sale of approximately $1.9 million (net of minority interest share of approximately $0.4 million).

During the quarter ended June 30, 2001, the Company placed in service two development projects consisting of an approximately 120,000 square foot office building in the Andover Office Park in



Andover, Massachusetts and an approximately 178,216 square foot office building known as 2600 Tower Oaks Boulevard in Rockville, Maryland.

**4. Investments in Unconsolidated Joint Ventures**

The investments in unconsolidated joint ventures consists of the following:

| Entity | Property | % Ownership |
|---|---|---|
| One Freedom Square LLC | One Freedom Square | 25% (1) |
| Square 407 LP | Market Square North | 50% |
| The Metropolitan Square Associates LLC | Metropolitan Square | 51% |
| BP 140 Kendrick Street LLC | 140 Kendrick Street | 25% (1) |
| BP/CRF 265 Franklin Street Holdings LLC | 265 Franklin Street | 35% |
| Discovery Square LLC | Discovery Square (2) | 50% |
| BP/CRF 901 New York Avenue LLC | 901 New York Ave. (3) | 25% (1) |
| Two Freedom Square LLC | Two Freedom Square (2) | 50% |

(1) Ownership can increase based on certain return thresholds

(2) Property is currently under development

(3) Land held for development

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

| | June 30, 2001 | December 31, 2000 |
|---|---|---|
| | (unaudited) | |
| **ASSETS** | | |
| Real estate, net | $ 666,388 | $ 640,688 |
| Other assets | 36,220 | 30,919 |
| Total assets | $ 702,608 | $ 671,607 |
| **LIABILITIES AND PARTNERS' EQUITY** | | |
| Mortgage and construction loans payable | $ 467,563 | $ 446,520 |
| Other liabilities | 11,631 | 10,904 |
| Partners' equity | 223,414 | 214,183 |
| Total liabilities and partners' equity | $ 702,608 | $ 671,607 |
| Company's share of equity | $ 94,155 | $ 89,871 |



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

| | For the six months ended June 30, | | For the three months ended June 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| | (unaudited) | | | |
| Total revenue | $ 39,960 | $ 12,608 | $ 19,482 | $ 8,626 |
| Expenses | | | | |
| Operating | 11,454 | 3,786 | 5,692 | 2,333 |
| Interest | 16,830 | 4,185 | 8,291 | 2,987 |
| Depreciation and amortization | 6,651 | 2,207 | 3,512 | 1,376 |
| Total expenses | 34,935 | 10,178 | 17,495 | 6,696 |
| Net income | $ 5,025 | $ 2,430 | $ 1,987 | $ 1,930 |
| Company's share of net income | $ 1,844 | $ 807 | $ 717 | $ 662 |

**(unaudited and in thousands)**

## 5. Investments in Securities

The Company accounts for investments in securities in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and has classified the securities as available-for-sale. During the quarter ended June 30, 2001, the Company realized a loss totaling $6.5 million related to the write-down of securities of two publicly traded telecommunications companies. The Company determined that the decline in the fair value of these securities was other than temporary as defined by SFAS No. 115.

## 6. Mortgage Notes and Bonds Payable

On April 25, 2001, the Company obtained new mortgage financing totaling approximately $525 million collateralized by the Citigroup Center property in New York City, New York. Such financing bears interest at a fixed rate equal to 7.1855% and matures on May 11, 2011.

On May 24, 2001, the Company repaid the mortgage loan on Newport Office Park totaling approximately $5.8 million.

On May 29, 2001, the Company obtained construction financing totaling $493.5 million collateralized by the Times Square Tower development project in New York City, New York. Such financing bears interest at a rate equal to Eurodollar + 1.95% and matures on November 29, 2004.

## 7. Minority Interests

Minority interests in the Company relate to the interest in the Operating Partnership not owned by Boston Properties, Inc. and an interest in a property partnership that is not owned by the Company. As of June 30, 2001, the minority interest in the Operating Partnership consisted of 20,382,462 OP Units and 9,346,033 Preferred Units held by parties other than Boston Properties, Inc.

On April 25, 2001, the Company acquired Citigroup Center through a venture with a private real estate investment company. This venture is consolidated as the Company exercises control over the



entity that owns the property. The equity interest in the venture that is not owned by the Company, totaling approximately $37.6 million at June 30, 2001, is included in Minority Interests on the accompanying Consolidated Balance Sheet.

On May 2, 2001, Boston Properties, Inc., as general partner of the Operating Partnership, determined a distribution on the OP Units in the amount of $0.58 per OP Unit payable on July 30, 2001 to OP Unit holders of record on June 29, 2001.

On May 15, 2001, the Operating Partnership paid a distribution on 2,482,026 Series One Preferred Units at $0.61625 per unit, based on an annual distribution of $2.465 per unit and paid a distribution on the 6,213,131 Series Two and Three Preferred Units of $0.73151 per unit.

## 8. Redeemable Preferred Stock and Stockholders' Equity

On May 2, 2001, the Board of Directors of the Company declared a second quarter dividend in the amount of $0.58 per share of Common Stock payable on July 30, 2001 to shareholders of record on June 29, 2001.

On May 15, 2001, the Company paid a dividend on the 2,000,000 shares of Series A Convertible Redeemable Preferred Stock (the "Preferred Stock"), $50 liquidation preference per share, of approximately $0.73151 per share. In addition, on May 2, 2001, the Board of Directors of the Company declared a dividend of $0.75616 per share on the Preferred Stock payable on August 15, 2001 to shareholders of record on June 29, 2001. These shares of Preferred Stock are not classified as equity as in certain instances they are convertible into shares of Common Stock at the election of the holder after December 31, 2002 or are redeemable for cash at the election of the holder in six annual tranches commencing on May 12, 2009.





## 9. Earnings Per Share

| | For the Three Months Ended June 30, 2001 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic Earnings: | | | |
| Income available to common shareholders | $ 49,038 | 89,990 | $ 0.54 |
| Effect of Dilutive Securities: | | | |
| Stock Options and other | — | 2,284 | (.01) |
| Diluted Earnings: | | | |
| Net income | $ 49,038 | 92,274 | $ 0.53 |

| | For the Three Months Ended June 30, 2000 | | |
|---|---|---|---|

| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| Basic Earnings: | | | |
| Income available to common shareholders | $ 34,880 | 67,991 | $ 0.51 |
| Effect of Dilutive Securities: | | | |
| Stock Options and other | 244 | 1,591 | (.01) |
| Diluted Earnings: | | | |
| Net income | $ 35,124 | 69,582 | $ 0.50 |

| | For the Six Months Ended June 30, 2001 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic Earnings: | | | |
| Income available to common shareholders | $ 94,645 | 89,365 | $ 1.06 |
| Effect of Dilutive Securities: | | | |
| Stock Options and other | — | 2,374 | (0.03) |
| Diluted Earnings: | | | |
| Net income | $ 94,645 | 91,739 | $ 1.03 |

| | For the Six Months Ended June 30, 2000 | | |
|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic Earnings: | | | |
| Income available to common shareholders | $ 65,857 | 67,973 | $ 0.97 |
| Effect of Dilutive Securities: | | | |
| Stock Options and other | 479 | 1,184 | (0.01) |
| Diluted Earnings: | | | |
| Net income | $ 66,336 | 69,157 | $ 0.96 |



**10. Segment Information**

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

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

Information by geographic area and property type:

Three months ended June 30, 2001:

| | Greater Boston | Greater Washington, D.C. | Midtown Manhattan | Greater San Francisco | New Jersey/ Pennsylvania | Total |
|---|---|---|---|---|---|---|
| Rental Revenue: | | | | | | |
| Class A | $ 52,697 | $ 55,888 | $ 53,191 | $ 53,542 | $ 15,612 | $ 230,930 |
| Office/Technical | 2,108 | 4,477 | — | 502 | — | 7,087 |
| Industrial | 254 | 327 | — | 352 | 211 | 1,144 |
| Hotels | 9,709 | — | — | — | — | 9,709 |
| Total | 64,768 | 60,692 | 53,191 | 54,396 | 15,823 | 248,870 |
| % of Total | 26.02% | 24.39% | 21.37% | 21.86% | 6.36% | 100.00% |
| Rental Expenses: | | | | | | |
| Class A | 18,112 | 13,949 | 18,221 | 18,266 | 5,113 | 73,661 |
| Office/Technical | 639 | 773 | — | 99 | — | 1,511 |
| Industrial | 93 | 112 | — | 78 | 30 | 313 |
| Hotels | 1,380 | — | — | — | — | 1,380 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | 20,224 | 14,834 | 18,221 | 18,443 | 5,143 | 76,865 |
| % of Total | 26.31% | 19.30% | 23.71% | 23.99% | 6.69% | 100.00% |
| Net Operating Income | $ 44,544 | $ 45,858 | $ 34,970 | $ 35,953 | $ 10,680 | $ 172,005 |
| % of Total | 25.90% | 26.66% | 20.33% | 20.90% | 6.21% | 100.00% |



Three months ended June 30, 2000:

| | Greater Boston | Greater Washington, D.C. | Midtown Manhattan | Greater San Francisco | New Jersey/ Pennsylvania | Total |
|---|---|---|---|---|---|---|
| Rental Revenue: | | | | | | |
| Class A | $ 46,262 | $ 53,031 | $ 35,176 | $ 44,304 | $ 15,116 | $ 193,889 |
| Office/Technical | 1,381 | 4,952 | — | 466 | — | 6,799 |
| Industrial | 469 | 364 | — | 561 | 173 | 1,567 |
| Hotels | 10,721 | — | — | — | — | 10,721 |
| Total | 58,833 | 58,347 | 35,176 | 45,331 | 15,289 | 212,976 |
| % of Total | 27.62% | 27.40% | 16.52% | 21.28% | 7.18% | 100.00% |
| Rental Expenses: | | | | | | |
| Class A | 16,228 | 13,984 | 11,428 | 15,002 | 4,861 | 61,503 |
| Office/Technical | 401 | 893 | — | 97 | — | 1,391 |
| Industrial | 132 | 103 | — | 38 | 39 | 312 |
| Hotels | 829 | — | — | — | — | 829 |
| Total | 17,590 | 14,980 | 11,428 | 15,137 | 4,900 | 64,035 |
| % of Total | 27.47% | 23.39% | 17.85% | 23.64% | 7.65% | 100.00% |
| Net Operating Income | $ 41,243 | $ 43,367 | $ 23,748 | $ 30,194 | $ 10,389 | $ 148,941 |
| % of Total | 27.69% | 29.12% | 15.94% | 20.27% | 6.98% | 100.00% |

The following is a reconciliation of net operating income to income before net derivative losses, minority interests and income from unconsolidated joint ventures:

| | Three Months Ended June 30, 2001 | Three Months Ended June 30, 2000 |
|---|---|---|
| Net operating income | $ 172,005 | $ 148,941 |
| Add: | | |
| Development and management services | 3,110 | 2,876 |
| Interest and other | 4,289 | 1,407 |
| Less: | | |
| General and administrative | (9,880) | (8,589) |
| Interest expense | (55,870) | (56,243) |
| Depreciation and amortization | (36,675) | (32,395) |
| Loss on investments in securities | (6,500) | — |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | $ 70,479 | $ 55,997 |



Information by geographic area and property type:

Six months ended June 30, 2001:

| | Greater Boston | Greater Washington, D.C. | Midtown Manhattan | Greater San Francisco | New Jersey/ Pennsylvania | Total |
|---|---|---|---|---|---|---|
| Rental Revenue: | | | | | | |
| Class A | $ 104,259 | $ 110,810 | $ 89,603 | $ 105,197 | $ 32,320 | $ 442,189 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Office/Technical | 3,810 | 8,778 | — | 1,013 | — | 13,601 |
| Industrial | 687 | 678 | — | 750 | 362 | 2,477 |
| Hotels | 16,218 | — | — | — | — | 16,218 |
| Total | 124,974 | 120,266 | 89,603 | 106,960 | 32,682 | 474,485 |
| % of Total | 26.34% | 25.35% | 18.88% | 22.54% | 6.89% | 100.00% |
| Rental Expenses: | | | | | | |
| Class A | 36,237 | 28,209 | 30,821 | 35,315 | 10,202 | 140,784 |
| Office/Technical | 1,165 | 1,693 | — | 181 | — | 3,039 |
| Industrial | 260 | 260 | — | 134 | 60 | 714 |
| Hotels | 2,671 | — | — | — | — | 2,671 |
| Total | 40,333 | 30,162 | 30,821 | 35,630 | 10,262 | 147,208 |
| % of Total | 27.40% | 20.49% | 20.94% | 24.20% | 6.97% | 100.00% |
| Net Operating Income | $ 84,641 | $ 90,104 | $ 58,782 | $ 71,330 | $ 22,420 | $ 327,277 |
| % of Total | 25.86% | 27.53% | 17.96% | 21.80% | 6.85% | 100.00% |



Six months ended June 30, 2000:

| | Greater Boston | Greater Washington, D.C. | Midtown Manhattan | Greater San Francisco | New Jersey/ Pennsylvania | Total |
|---|---|---|---|---|---|---|
| Rental Revenue: | | | | | | |
| Class A | $ 91,802 | $ 108,376 | $ 70,128 | $ 87,557 | $ 28,243 | $ 386,106 |
| Office/Technical | 2,942 | 9,659 | — | 893 | — | 13,494 |
| Industrial | 915 | 725 | — | 903 | 353 | 2,896 |
| Hotels | 17,161 | — | — | — | — | 17,161 |
| Total | 112,820 | 118,760 | 70,128 | 89,353 | 28,596 | 419,657 |
| % of Total | 26.88% | 28.30% | 16.71% | 21.29% | 6.82% | 100.00% |
| Rental Expenses: | | | | | | |
| Class A | 33,206 | 28,553 | 23,331 | 29,776 | 8,792 | 123,658 |
| Office/Technical | 847 | 1,867 | — | 163 | — | 2,877 |
| Industrial | 295 | 217 | — | 85 | 67 | 664 |
| Hotels | 2,013 | — | — | — | — | 2,013 |
| Total | 36,361 | 30,637 | 23,331 | 30,024 | 8,859 | 129,212 |
| % of Total | 28.13% | 23.71% | 18.06% | 23.24% | 6.86% | 100.00% |
| Net Operating Income | $ 76,459 | $ 88,123 | $ 46,797 | $ 59,329 | $ 19,737 | $ 290,445 |
| % of Total | 26.32% | 30.34% | 16.11% | 20.43% | 6.80% | 100.00% |

The following is a reconciliation of net operating income to income before net derivative losses, minority interests and income from unconsolidated joint ventures:

| | Six Months Ended June 30, 2001 | 2000 |
|---|---|---|
| Net operating income | $ 327,277 | $ 290,445 |
| Add: | | |
| Development and management services | 6,507 | 5,739 |
| Interest and other | 8,733 | 2,117 |
| Less: | | |
| General and administrative | (19,830) | (15,997) |
| Interest expense | (103,723) | (111,458) |
| Depreciation and amortization | (71,415) | (64,626) |
| Loss on investments in securities | (6,500) | — |

| | | | | |
|---|---|---|---|---|
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | $ | 141,049 | $ | 106,220 |



**11. Unaudited Pro Forma Consolidated Financial Information**

The accompanying unaudited pro forma information for the six months ended June 30, 2001 and 2000 is presented as if the follow-on offering of 17,110,000 shares of Common Stock issued on October 31, 2000 and the acquisition of Citigroup Center on April 25, 2001 had occurred on January 1, 2000. This pro forma information is based upon the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto.

This unaudited pro forma information does not purport to represent what the actual results of operations of the Company would have been had the above occurred, nor do they purport to predict the results of operations of future periods.

| Pro Forma (in thousands, except per share data) | | Six Months Ended June 30, 2001 | | 2000 |
|---|---|---|---|---|
| Total revenue | $ | 516,527 | $ | 473,217 |
| Income before cumulative effect of a change in accounting principle | $ | 102,086 | $ | 74,258 |
| Net income available to common shareholders | $ | 95,319 | $ | 74,258 |
| Basic earnings per share: | | | | |
| Income before cumulative effect of a change in accounting principle | $ | 1.14 | $ | 0.87 |
| Net income available to common shareholders | $ | 1.07 | $ | 0.87 |
| Weighted average number of common shares outstanding | | 89,365 | | 85,083 |
| Diluted earnings per share: | | | | |
| Income before cumulative effect of a change in accounting principle | $ | 1.11 | $ | 0.86 |
| Net income available to common shareholders | $ | 1.04 | $ | 0.86 |
| Weighted average number of common and common equivalent shares outstanding | | 91,739 | | 86,267 |



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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results or developments could differ materially from those projected in such statements as a result of certain factors set forth in the section below entitled "Certain Factors Affecting Future Operating Results" and elsewhere in this report.

Since January 1, 2000, the Company has increased its in-service portfolio from 136 properties to 145 properties (the "Total Portfolio"). As a result of the growth in the Company's Total Portfolio, the financial data presented below shows significant changes in revenues and expenses from period to period. The Company does not believe that its period-to-period financial data are comparable. Therefore, the comparison of operating results for the three and six months ended June 30, 2001 and 2000 show separately changes attributable to the properties that were owned by the Company for all of each period compared (the "Same Property Portfolio") and the changes attributable to the Total Portfolio.

*Results of Operations*

***Comparison of the six months ended June 30, 2001 to the six months ended June 30, 2000.***

The table below reflects selected operating information for the Same Property Portfolio and the Total Portfolio. The Same Property Portfolio consists of the 113 properties acquired or placed in service on or prior to January 1, 2000.

| (Dollars in thousands) | SAME PROPERTY PORTFOLIO 2001 | | 2000 | | INCREASE/ (DECREASE) | % CHANGE |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| Rental revenue | $ | 436,029 | $ | 398,367 | $ 37,662 | 9.5% |
| Development and management services | | — | | — | — | — |
| Interest and other | | — | | — | — | — |
| Total revenue | | 436,029 | | 398,367 | 37,662 | 9.5% |
| Expenses: | | | | | | |
| Operating | | 136,717 | | 123,979 | 12,738 | 10.3% |
| Net Operating Income | | 299,312 | | 274,388 | 24,924 | 9.1% |
| General and administrative | | — | | — | — | — |
| Interest | | — | | — | — | — |

| | | | | |
|---|---|---|---|---|
| Depreciation and amortization | 65,118 | 61,744 | 3,374 | 5.5% |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | $ 234,194 | $ 212,644 | $ 21,550 | 10.1% |



| (Dollars in thousands) | TOTAL PORTFOLIO 2001 | 2000 | INCREASE/ (DECREASE) | % CHANGE |
|---|---|---|---|---|
| Revenue: | | | | |
| Rental revenue | $ 474,485 | $ 419,657 | $ 54,828 | 13.1% |
| Development and management services | 6,507 | 5,739 | 768 | 13.4% |
| Interest and other | 8,733 | 2,117 | 6,616 | 312.5% |
| Total revenue | 489,725 | 427,513 | 62,212 | 14.6% |
| Expenses: | | | | |
| Operating | 147,208 | 129,212 | 17,996 | 13.9% |
| Net Operating Income | 342,517 | 298,301 | 44,216 | 14.8% |
| General and administrative | 19,830 | 15,997 | 3,833 | 24.0% |
| Interest | 103,723 | 111,458 | (7,735) | -6.9% |
| Depreciation and amortization | 71,415 | 64,626 | 6,789 | 10.5% |
| Loss from investments in securities | 6,500 | — | 6,500 | — |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | $ 141,049 | $ 106,220 | $ 34,829 | 32.8% |

The increase in rental revenues in the Same Property Portfolio is primarily a result of an overall increase in rental rates on new leases and rollovers offset by a small decrease in occupancy. The additional increase in rental revenues for the Total Portfolio is primarily a result of the revenues earned on the properties acquired or placed-in-service after January 1, 2000.

The increase in development and management services revenue in the Total Portfolio is mainly due to a $0.5 million incentive fee earned during the first quarter of 2001.

The increase in interest and other revenue in the Total Portfolio is primarily due to an increase in interest earned as a result of higher average cash balances resulting from the remaining proceeds from the public offering in October 2000.

Property operating expenses (real estate taxes, utilities, repairs and maintenance, cleaning and other property related expenses) in the Same Property Portfolio increased mainly due to increases in real estate taxes and utilities. Additional increases in property operating expenses for the Total Portfolio were mainly due to the properties acquired or placed-in-service after January 1, 2000.

General and administrative expenses in the Total Portfolio increased due to an overall increase in compensation and $0.7 million of write-offs related to abandoned project costs in the first quarter of 2001.

Interest expense in the Total Portfolio decreased due to a decrease in weighted average interest rates on the Company's floating rate debt from 8.12% to 7.05%, as well as the decreased use of the Company's unsecured revolving line of credit (the "Unsecured Line of Credit").

Depreciation and amortization expense for the Same Property Portfolio increased as a result of capital and tenant improvements made since June 30, 2000. Additional increases in depreciation and amortization expense for the Total Portfolio were mainly due to the properties acquired or placed-in-service after January 1, 2000.



***Comparison of the three months ended June 30, 2001 to the three months ended June 30, 2000.***

The table below reflects selected operating information for the Same Property Portfolio and the Total Portfolio. The Same Property Portfolio consists of the 118 properties acquired or placed in service on or prior to April 1, 2000.

| (Dollars in thousands) | SAME PROPERTY PORTFOLIO 2001 | 2000 | INCREASE/ (DECREASE) | % CHANGE |
|---|---|---|---|---|
| Revenue: | | | | |
| Rental revenue | $ 226,304 | $ 207,801 | 18,503 | 8.9% |
| Development and management services | — | — | — | — |

| | | | | |
|---|---|---|---|---|
| Interest and other | — | — | — | — |
| Total revenue | 226,304 | 207,801 | 18,503 | 8.9% |
| Expenses: | | | | |
| Operating | 70,136 | 62,916 | 7,220 | 11.5% |
| Net Operating Income | 156,168 | 144,885 | 11,283 | 7.8% |
| General and administrative | — | — | — | — |
| Interest | — | — | — | — |
| Depreciation and amortization | 32,876 | 31,920 | 956 | 3.0% |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | 123,292 | 112,965 | 10,327 | 9.1% |

| | TOTAL PORTFOLIO | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2001 | 2000 | INCREASE/ (DECREASE) | % CHANGE |
| Revenue: | | | | |
| Rental revenue | $ 248,870 | $ 212,976 | $ 35,894 | 16.9% |
| Development and management services | 3,110 | 2,876 | 234 | 8.1% |
| Interest and other | 4,289 | 1,407 | 2,882 | 204.8% |
| Total revenue | 256,269 | 217,259 | 39,010 | 18.0% |
| Expenses: | | | | |
| Operating | 76,865 | 64,035 | 12,830 | 20.0% |
| Net Operating Income | 179,404 | 153,224 | 26,180 | 17.1% |
| General and administrative | 9,880 | 8,589 | 1,291 | 15.0% |
| Interest | 55,870 | 56,243 | (373) | -0.7% |
| Depreciation and amortization | 36,675 | 32,395 | 4,280 | 13.2% |
| Loss on investments in securities | 6,500 | — | 6,500 | — |
| Income before net derivative losses, minority interests and income from unconsolidated joint ventures | $ 70,479 | $ 55,997 | 14,482 | 25.9% |

The increase in rental revenues in the Same Property Portfolio is primarily a result of an overall increase in rental rates on new leases and rollovers and an increase in lease termination fees from $0.3 million to $2.5 million offset by a small decrease in occupancy. The additional increase in rental revenues for the Total Portfolio is primarily a result of the properties acquired or placed-in-service after April 1, 2000 offset by a small decrease due to the sale of two properties during the quarter.



The increase in development and management services revenue for the Total Portfolio is due to revenues earned on new management agreements in 2001.

The increase in interest and other revenue for the Total Portfolio is primarily due to an increase in interest earned as a result of higher average cash balances resulting from the remaining proceeds from the public offering in October 2000.

Property operating expenses (real estate taxes, utilities, repairs and maintenance, cleaning and other property related expenses) in the Same Property Portfolio increased mainly due to increases in real estate taxes and utilities. Additioanl increases in property operating expenses for the Total Portfolio were mainly due to the properties acquired or placed-in-service after April 1, 2000.

General and administrative expenses for the Total Portfolio increased due to an overall increase in compensation.

Interest expense for the Total Portfolio decreased due to a decrease in weighted average interest rates on the Company's floating rate debt from 8.12% to 7.05%, as well as the decreased use of the Company's unsecured revolving line of credit (the "Unsecured Line of Credit").

Depreciation and amortization expense for the Same Property Portfolio increased as a result of capital and tenant improvements made since June 30, 2000. Additional increases in depreciation and amortization expense for the Total Portfolio were mainly due to the properties acquired or placed-in-service after April 1, 2000.

***Liquidity and Capital Resources***

The Company's consolidated indebtedness at June 30, 2001 was approximately $4.2 billion and bore interest at a weighted average interest rate of approximately 7.05% per annum. Based on the Company's total market capitalization at June 30, 2001 of approximately $9.3 billion, the Company's consolidated debt represents 45.1% of its total market capitalization.

The Company has a $605.0 million unsecured revolving line of credit (the "Unsecured Line of Credit") with Fleet Bank, as agent. The Company uses the Unsecured Line of Credit principally to facilitate its development and acquisition activities and for working capital purposes. As of August 7, 2001, the Company had no amounts outstanding under the Unsecured Line of Credit.



The following represents the outstanding principal balances due under the first mortgages at June 30, 2001:

| Properties | Interest Rate | Principal Amount (in thousands) | Maturity Date |
|---|---|---|---|
| Citigroup Center | 7.19% | $ 524,586 | May 11, 2011 |
| Embarcadero Center One, Two and Federal Reserve | 6.70% | 310,942 | December 10, 2008 |
| Prudential Center | 6.72% | 289,957 | July 1, 2008 |
| 280 Park Avenue | 7.64% | 269,014 | February 1, 2011 |
| 5 Times Square | 7.05% | 233,029(1) | January 26, 2003 |
| 599 Lexington Avenue | 7.00% | 225,000(2) | July 19, 2005 |
| Embarcadero Center Four | 6.79% | 153,075 | February 1, 2008 |
| 875 Third Avenue | 8.00% | 149,996(3) | January 1, 2003 |
| Embarcadero Center Three | 6.40% | 145,352 | January 1, 2007 |
| Times Square Tower | 5.93% | 135,820 | November 29,2004 |
| 111 Huntington Avenue | 7.06% | 126,963(4) | September 27, 2002 |
| Two Independence Square | 8.09% | 115,735(5) | February 27, 2003 |
| Riverfront Plaza | 6.61% | 114,468 | February 1, 2008 |
| Democracy Center | 7.05% | 106,810 | April 1, 2009 |
| Embarcadero Center West Tower | 6.50% | 96,957 | January 1, 2006 |
| 100 East Pratt Street | 6.73% | 91,057 | November 1, 2008 |
| 601 and 651 Gateway Boulevard | 8.23% | 89,544 | October 1, 2010 |
| One Independence Square | 8.12% | 73,857(5) | August 21, 2001 |
| Reservoir Place | 6.88% | 72,907(6) | November 1, 2006 |
| One and Two Reston Overlook | 7.45% | 67,844 | September 1, 2004 |
| 2300 N Street | 6.88% | 66,000 | August 3, 2003 |
| 202, 206 & 214 Carnegie Center | 8.13% | 62,662 | October 1, 2010 |
| New Dominion Technology Park | 7.70% | 57,610(7) | January 15, 2021 |
| Capital Gallery | 8.24% | 56,624 | August 16, 2006 |
| 504, 506 & 508 Carnegie Center | 7.39% | 47,877 | January 1, 2008 |
| 10 and 20 Burlington Mall Road | 8.33% | 37,000(8) | October 1, 2001 |
| Ten Cambridge Center | 8.27% | 35,470 | May 1, 2010 |
| 1301 New York Avenue | 6.70% | 32,158(9) | August 15, 2009 |
| Waltham Weston Corporate Center | 6.77% | 29,293(10) | February 13, 2004 |
| Sumner Square | 6.81% | 28,899(11) | April 22, 2002 |
| Eight Cambridge Center | 7.73% | 28,195 | July 15, 2010 |
| 510 Carnegie Center | 7.39% | 27,412 | January 1, 2008 |
| Lockheed Martin Building | 6.61% | 26,068 | June 1, 2008 |
| Orbital Sciences, Buildings One and Three | 6.80% | 25,761(12) | August 19, 2002 |
| 2600 Tower Oaks Boulevard | 6.91% | 25,160(13) | September 20, 2002 |
| University Place | 6.94% | 24,971 | August 1, 2021 |
| Reston Corporate Center | 6.56% | 24,597 | May 1, 2008 |
| 191 Spring Street | 8.50% | 22,627 | September 1, 2006 |
| Quorum Office Park | 6.63% | 22,019(14) | August 25, 2003 |
| Bedford Business Park | 8.50% | 21,453 | December 10, 2008 |
| NIMA Building | 6.51% | 21,311 | June 1, 2008 |
| Orbital Sciences, Building Two | 6.80% | 19,127(15) | June 13, 2003 |
| Andover Office Park, Building One | 6.77% | 13,655(16) | October 21, 2003 |
| 101 Carnegie Center | 7.66% | 8,200 | April 1, 2006 |
| Montvale Center | 8.59% | 7,499 | December 1, 2006 |
| 302 Carnegie Center | 7.04% | 6,969(17) | April 1, 2003 |
| Hilltop Business Center | 6.81% | 5,671 | March 1, 2019 |
| 201 Carnegie Center | 7.08% | 469 | February 1, 2010 |
| Total | | $ 4,177,670 | |

(1) Total construction loan in the amount of $420.0 million at a variable rate of Eurodollar + 1.75%.

(2) At maturity the lender has the option to purchase a 33.33% interest in this Property in exchange for the cancellation of the principal balance of approximately $225 million.



(3)

The principal amount and interest rate shown has been adjusted to reflect the fair value of the note at its inception. The actual principal balance at June 30, 2001 was $148.4 million and the interest rate was 8.75%.

(4) Total construction loan in the amount of $203.0 million at a variable rate of LIBOR + 2.00%.

(5) The principal amount and interest rate shown has been adjusted to reflect the effective rates on the loans. The actual principal balances at June 30, 2001 were $116.1 million and $73.9 million, respectively. The actual interest rates are 8.50% and continue at such rates through the loan expiration.

(6) The principal amount and interest rate shown has been adjusted to reflect the fair value of the note. The actual principal balance at June 30, 2001 was $65.1 and the interest rate was 9.09%.

(7) Includes outstanding bonds in the amounts of $49.8 million and $7.8 million, which bear interest at fixed rates of 7.72% and 7.48%, respectively. Semi-annual payments are due until maturity.

(8) Includes outstanding indebtedness collateralized by 91 Hartwell Avenue and 92 and 100 Hayden Avenue.

(9) Includes outstanding principal in the amounts of $19.8 million, $8.1 million and $4.2 million which bear interest at fixed rates of 6.70%, 8.54% and 6.75%, respectively.

(10) Total construction loan in the amount of $70.0 million at a variable rate of LIBOR + 1.70%.

(11) The outstanding principal bears interest at a rate equal to Eurodollar + 1.50%.

(12) Total construction loan in the amount of $27.0 million at a variable rate of LIBOR + 1.65%.

(13) Total construction loan in the amount of $32.0 million at a variable rate of LIBOR + 1.90%.

(14) Total construction loan in the amount of $32.25 million at a variable rate of LIBOR + 1.65%.

(15) Total construction loan in the amount of $25.1 million at a variable rate of Eurodollar + 1.65%.

(16) Total construction loan in the amount of $16.0 million at a variable rate of LIBOR + 1.75%.

(17) Total construction loan in the amount of $10.0 million at a variable rate of LIBOR + 1.85%.

The Company has determined that its estimated cash flows and available sources of liquidity are adequate to meet liquidity needs for the next twelve months. The Company believes that its principal liquidity needs for the next twelve months are to fund normal recurring expenses, debt service requirements, current development costs not covered under construction loans and the minimum distribution required to maintain its REIT qualifications under the Internal Revenue Code of 1986, as amended. The Company believes that these needs will be fully funded from cash flows provided by operating and financing activities. The Company's operating properties and hotels require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. For the three months ended June 30, 2001, the Company's recurring capital expenditures totaled $3.4 million, $4.1 million, and $6.0 million for general capital expenditures, hotel capital expenditures, and tenant improvement and leasing commissions, respectively.

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

The Company has development projects currently in process, which require commitments to fund to completion. Commitments under these arrangements totaled approximately $905.2 million as of June 30, 2001. The Company expects to fund these commitments using available cash, construction loans and the Unsecured Line of Credit. In addition, the Company has options to acquire land that require minimum deposits that the Company will fund using available cash or the Unsecured Line of Credit.



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The Company has investments in securities of approximately $4.3 million at June 30, 2001 related to non-publicly traded companies. These investments have been recorded at cost as they are not considered marketable under Statement of Financial Accounting Standard No 115 "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115"). During the quarter ended June 30, 2001, in accordance with SFAS 115, the Company wrote down its remaining investments in securities, as the Company believes the loss in value to be "other than temporary". The loss on investments totaled $6.5 million for the quarter ended June 30, 2001.

***Funds from Operations***

Management believes that Funds from Operations ("FFO") is helpful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, it provides investors with an understanding of the ability of the Company to incur and service debt, to make capital expenditures and to fund other cash needs. In accordance with the National Association of Real Estate Investment Trusts ("NAREIT") revised definition of FFO, the Company calculated FFO by adjusting net income (loss) (computed in accordance with accounting principles generally accepted in the United States, including non-recurring items), for gains (or losses) from sales of properties (except gains and losses from sales of depreciable operating properties), real estate related depreciation and amortization and unconsolidated partnerships and joint ventures. The Company's FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with accounting principles generally accepted in the United States and should not be considered as an alternative to cash flows or net income (determined in accordance with accounting principles generally accepted in the United States) as a measure of the Company's liquidity or performance, nor is it indicative of funds available to fund the Company's cash needs, including its ability to make cash distributions.

The following table presents the Company's Funds from Operations for the three months ended June 30, 2001 and 2000:

| | Three Months Ended June 30, 2001 | Three Months Ended June 30, 2000 |
|---|---|---|
| Income before minority interests and joint venture income | $ 70,479 | $ 55,997 |
| Add: | | |
| Real estate depreciation and amortization | 37,599 | 32,497 |
| Income from unconsolidated joint ventures | 717 | 662 |
| Less: | | |
| Net derivative losses | (4,733) | |
| Minority property partnerships' share of Funds from Operations | (411) | (266) |
| Preferred dividends and distributions | (8,260) | (8,250) |
| Funds from Operations | 95,391 | $ 80,640 |
| Add: Net derivative losses | 4,733 | — |
| Funds from Operations before net derivative losses | $ 100,124 | $ 80,640 |
| Funds from Operations Available to Common Shareholders before net derivative losses (81.31% and 73.60%, respectively) | $ 81,410 | $ 59,347 |



Reconciliation to Diluted Funds from Operations:

| | Three Months Ended June 30, 2001 | | Three Months Ended June 30, 2000 | |
|---|---|---|---|---|
| | Income (Numerator) | Shares (Denominator) | Income (Numerator) | Shares (Denominator) |
| Funds from Operations | $ 100,124 | 110,676 | $ 80,640 | 92,385 |
| Effect of Dilutive Securities | | | | |
| Convertible Preferred Units | 6,612 | 11,011 | 6,607 | 10,376 |
| Convertible Preferred Stock | 1,648 | 2,625 | 1,643 | 2,625 |
| Stock Options and other | — | 1,633 | 316 | 1,589 |
| Diluted Funds from Operations | $ 108,384 | 125,945 | $ 89,206 | 106,975 |
| Company's share of Diluted Funds From Operations (83.58% and 77.20%, respectively) | $ 90,581 | 105,259 | $ 68,864 | 82,583 |

***Certain Factors Affecting Future Operating Results***

This Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding the Company's business, strategies, revenues, expenditures and operating and capital requirements. The following factors, among others, could cause actual results, performance or achievements of the Company to differ materially from those set forth or contemplated in the forward-looking statements made in this report: general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate); risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments; failure to manage effectively the Company's growth and expansion into new markets or to integrate acquisitions successfully; risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities); risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets; costs of compliance with the Americans with Disabilities Act and other similar laws; potential liability for uninsured losses and environmental contamination; risks associated with the Company's potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and possible adverse changes in tax and environmental laws; and risks associated with the Company's dependence on key personnel whose continued service is not guaranteed.

*Inflation*

Substantially all of the office leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of the leases provide for fixed base rent increases or indexed increases. The Company believes that inflationary increases may be at least partially offset by the contractual rent increases described above.



**ITEM 3—Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the risk of loss from adverse changes in market prices and interest rates. The primary market risk facing the Company is mortgage debt, which bears interest primarily at fixed rates, and therefore, the fair value of these instruments is affected by changes in the market interest rates. The following table presents principal cash flows based upon maturity dates of the debt obligations and the related weighted average interest rates by expected maturity dates for the fixed rate debt. The interest rate of the variable rate debt as of June 30, 2001 ranged from LIBOR plus 1.00% to LIBO plus 2.00%. At June 30, 2001, the Company was a party to three hedge contracts for a total of $450.0 million and a swap arrangement for $213.0 million. The hedge contracts provide for a fixed interest rate when LIBOR is less than 5.76% and when LIBOR is greater than 6.35% or 7.95% for terms remaining of two to four years. The swap agreement provides for a fixed interest rate of 6.0% through September 11, 2002.

| | | | | Mortgage Debt (in thousands) | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | Thereafter | Total | Fair Value |
| Fixed Rate | $ 130,833 | $ 192,179 | $ 255,017 | $ 113,451 | $ 276,605 | $ 2,572,890 | $ 3,510,975 | $ 3,510,975 |
| Weighted Average Interest Rate | 8.06% | 8.41% | 7.56% | 7.36% | 7.04% | 7.18% | 7.30% | |
| Variable Rate | $ 244 | $ 206,539 | $ 294,799 | $ 165,113 | — | — | $ 666,695 | $ 666,695 |



## PART II. OTHER INFORMATION

**ITEM 2—Changes in Securities**

On April 25, 2001, the Company issued 26,821 OP Units. Such OP Units were issued to accredited investors in a transaction that was exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of such Act.

**ITEM 4—Submission of Matters to a Vote of Security Holders**

The Company held its annual meeting of stockholders on May 2, 2001. The stockholders voted to elect Mortimer B. Zuckerman, Alan B. Landis and Richard E. Salomon as Class I Directors of the Company to serve until 2004. 66,245,247, 74,011,565 and 73,742,570 votes were cast for the elections of Mr. Zuckerman, Mr. Landis and Mr. Salomon, respectively, and 8,632,998, 866,679 and 1,135,675 votes were withheld, respectively. Alan J. Patricof and Martin Turchin will continue to serve as Class II Directors and Edward H. Linde and Ivan G. Seidenberg will continue to serve as Class III Directors until their present terms expire in 2002 and 2003, respectively, and their successors are duly elected.

The stockholders voted on a shareholder proposal concerning the annual election of directors. 40,580,594 votes were cast for the proposal, 24,871,662 votes were cast against the proposal, and 210,127 votes abstained from this proposal.

The stockholders voted on a shareholder proposal concerning the shareholder rights plan. 46,602,690 votes were cast for the proposal, 18,771,889 votes were cast against the proposal, and 287,804 votes abstained from this proposal.

The stockholders also voted to ratify the Board of Directors' selection of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending December 31, 2001. 71,809,141 votes were cast for this proposal, 3,019,007 votes were cast against this proposal, and 50,096 votes abstained from this proposal.

**ITEM 6—Exhibits and Reports on Form 8-K**

(b)

Reports on Form 8-K

A Form 8-K dated April 25, 2001 was filed with the Securities and Exchange Commission to report under Item 5 of such report the information presented to investors and analysts and the Company's press release for the quarter ended March 31, 2001.

A Form 8-K dated May 10, 2001 was filed with the Securities and Exchange Commission to report under Item 2 of such report the acquisition of Citigroup Center.

A Form 8-K dated June 6, 2001 was filed with the Securities and Exchange Commission to report under Item 5 of such report the information to be used in an investor presentation.



## SIGNATURES

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

BOSTON PROPERTIES, INC.

August 13, 2001

/s/ DOUGLAS T. LINDE

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



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