MFS HIGH INCOME MUNICIPAL TRUST
Form N-CSR
February 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF

REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-05754

MFS HIGH INCOME MUNICIPAL TRUST

(Exact name of registrant as specified in charter)

111 Huntington Avenue, Boston, Massachusetts 02199-7618

(Address of principal executive offices) (Zip code)

Susan S. Newton

Massachusetts Financial Services Company

111 Huntington Avenue

Boston, Massachusetts 02199-7618

(Name and address of agents for service)

Registrant s telephone number, including area code: (617) 954-5000

Date of fiscal year end: November 30

Date of reporting period: November 30, 2012

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ITEM 1. REPORTS TO STOCKHOLDERS.

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ANNUAL REPORT

November 30, 2012

MFS® HIGH INCOME MUNICIPAL TRUST

CXE-ANN

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MFS® HIGH INCOME MUNICIPAL TRUST

New York Stock Exchange Symbol: **CXE**

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NOT FDIC INSURED   MAY LOSE VALUE   NO BANK GUARANTEE

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LETTER FROM THE CHAIRMAN AND CEO

Dear Shareholders:

The global market outlook for 2013 is one of cautious optimism. While we are seeing some positive economic trends in the United States, Europe, and China, the overall

environment remains challenging. In the United States, the recent fiscal cliff agreement was received positively by investors, even though it mostly addressed pressing taxation issues and did not resolve additional concerns, including the need for spending cuts and a large-scale reduction of the federal debt. These issues will be front and center again in the spring. Despite the ongoing uncertainty, economic tailwinds are gathering strength as the U.S. housing and job markets are improving and consumer confidence is rising.

Overseas, the debt crisis continues to weigh heavily on eurozone markets, with even Germany long an economic

stalwart experiencing some contraction. These ongoing challenges could be a drag on global market performance this year. In Asia, manufacturing activity has accelerated in emerging markets such as China and India, and we are seeing signs of stabilized loan growth in China, a leading indicator of that country s economic health. In contrast, Japan s economy is contracting sharply under deflationary pressures. Nevertheless, Japanese markets have responded favorably to early actions by the new government, which appears determined to act aggressively, along with the Bank of Japan, to stimulate growth.

As always, managing risk in the face of uncertainty remains a top priority for investors. At MFS®, our uniquely collaborative investment process revolves around global research and our disciplined risk management approach. Our global team of investment professionals shares ideas and evaluates opportunities across continents, investment disciplines and asset classes all with a goal of building better insights, and ultimately better results, for our clients.

We remain mindful of the many economic challenges investors face today, and believe it is more important than ever to maintain a long-term view, employ time-tested principles, such as asset allocation and diversification, and work closely with investment advisors to identify and pursue the most suitable opportunities.

Respectfully,

Robert J. Manning

Chairman and Chief Executive Officer

MFS Investment Management®

January 15, 2013

The opinions expressed in this letter are subject to change, may not be relied upon for investment advice, and no forecasts can be guaranteed.

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PORTFOLIO COMPOSITION

Portfolio structure at market value

Top five industries reflecting equivalent exposure of derivative positions (i)	
Healthcare Revenue Hospitals	35.2%
Healthcare Revenue Long Term Care	15.6%
Water & Sewer Utility Revenue	9.9%
Universities Colleges	8.8%
U.S. Treasury Securities (j)	(20.0)%

Portfolio structure reflecting equivalent exposure of derivative positions (i)(j)

Composition including fixed income credit quality (a)(i)	
AAA	9.4%
AA	35.5%
A	27.4%
BBB	34.3%
BB	7.8%
B	9.1%
CCC (o)	0.0%
CC	0.1%
Not Rated (j)	5.3%
Cash & Other	(28.9)%

Portfolio facts (i)	
Average Duration (d)	10.5
Average Effective Maturity (m)	19.5 yrs.

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Portfolio Composition continued

(a) For all securities other than those specifically described below, ratings are assigned to underlying securities utilizing ratings from Moody s, Fitch, and Standard & Poor s rating agencies and applying the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). Securities rated BBB or higher are considered investment grade. All ratings are subject to change. Not Rated includes fixed income securities, including fixed income futures contracts, which have not been rated by any rating agency. Cash & Other includes cash, other assets less liabilities, offsets to derivative positions, and short-term securities. The fund may not hold all of these instruments. The fund is not rated by these agencies.

(d) Duration is a measure of how much a bond s price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value due to the interest rate move.

(i) For purposes of this presentation, the components include the market value of securities, and reflect the impact of the equivalent exposure of derivative positions, if any. These amounts may be negative from time to time. The bond component will include any accrued interest amounts. Equivalent exposure is a calculated amount that translates the derivative position into a reasonable approximation of the amount of the underlying asset that the portfolio would have to hold at a given point in time to have the same price sensitivity that results from the portfolio s ownership of the derivative contract. When dealing with derivatives, equivalent exposure is a more representative measure of the potential impact of a position on portfolio performance than market value. Where the fund holds convertible bonds, these are treated as part of the equity portion of the portfolio.

(j) For the purpose of managing the fund s duration, the fund holds short treasury futures with a bond equivalent exposure of (20.0)%, which reduce the fund s interest rate exposure but not its credit exposure.

(m) In determining an instrument s effective maturity for purposes of calculating the fund s dollar-weighted average effective maturity, MFS uses the instrument s stated maturity or, if applicable, an earlier date on which MFS believes it is probable that a maturity-shortening device (such as a put, pre-refunding or prepayment) will cause the instrument to be repaid. Such an earlier date can be substantially shorter than the instrument s stated maturity.

(o) Less than 0.1%.

From time to time Cash & Other Net Assets may be negative due to the aggregate liquidation value of variable rate municipal term preferred shares, timing of cash receipts, and/or equivalent exposure from any derivative holdings.

Percentages are based on net assets, including the value of auction rate preferred shares, as of 11/30/12.

The portfolio is actively managed and current holdings may be different.

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MANAGEMENT REVIEW

Summary of Results

The MFS High Income Municipal Trust (the fund) is a closed-end fund investing primarily in tax-exempt bonds and tax-exempt notes.

For the twelve months ended November 30, 2012, common shares of the fund provided a total return of 26.52%, at net asset value. This compares with a return of 10.17% for the fund s benchmark, the Barclays Municipal Bond Index.

During the reporting period, the fund issued in a private placement 3,675 Variable Rate Municipal Term Preferred Shares (VMTPS) and the proceeds were used to repurchase 94.2% of the fund s outstanding Auction Rate Preferred Shares (ARPS) tendered at a price equal to 95% of the ARPS per share liquidation preference, plus any unpaid dividends. The fund benefited from the tender and repurchase of a portion of the fund s ARPS at 95% of the ARPS per share liquidation preference.

Market Environment

Just prior to the beginning of the reporting period, markets were roiled by several global concerns. These included the aftermath of the U.S. sovereign debt-ceiling debacle, the path of eurozone integration and the scope of its bailout facilities, and the likelihood of a Chinese hard landing. Amidst this turmoil, global equity markets had declined sharply and credit spreads widened. At the same time, global consumer and producer sentiment indicators had fallen precipitously, while highly-rated sovereign bond yields hit multi-decade lows.

During the first half of the period, however, additional liquidity from the U.S. Federal Reserve (Fed), in the form of Operation Twist , and the European Central Bank (ECB), in the form of 3-year, Long Term Refinancing Operations, or LTROs, coupled with healthier global macroeconomic conditions led by moderate but sustained U.S. growth, ushered in improved market dynamics.

During the latter part of the period, market trends were more mixed. Worsening conditions were driven by broadly weaker global macroeconomic indicators, as well as renewed concerns over the eurozone s capacity and determination to address its ongoing crisis. However, broad market sentiment remained relatively resilient, as equity markets generally maintained gains and credit spreads did not indicate deterioration. A new round of monetary easing by the Fed (QE3) and the ECB (rate cut and a new bond purchase facility) towards the end of the period instilled additional confidence in risk markets. Nonetheless, towards the end of the period, weaker equity earnings reports and declining forward guidance caused market sentiment to soften. As we moved toward year end, the fiscal cliff negotiations between the Republicans in the U.S. Congress and President Obama appeared to have been a particular source of market attention.

Over the twelve months ended November 30, 2012, the municipal bond market continued to generate good performance relative to other rate-sensitive fixed income markets, in part as a result of falling treasury yields, but also as a consequence of very favorable supply/demand dynamics. The latter were driven by historically low yields on treasury debt and cash equivalents, which appeared to have forced income oriented

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Management Review continued

investors to look elsewhere for yield. In addition, while municipal bond issuance increased over 2011 s depressed levels, much of it was due to the refinancing of older, higher-coupon debt versus issuance to raise money to finance new projects. In other words, net new supply remained quite low, while demand remained high. As of the end of November 2012, net inflows into municipal bond mutual funds were tracking for their second-highest calendar year on record.

Municipal bond yield spreads over treasuries tightened and all-in yield fell to multi-decade lows against a backdrop where high-profile headlines about Chapter 9 filings raised questions about the solvency of certain local issuers. Nevertheless, lower-quality bonds strongly outperformed the period, with BBB[c] rated municipal bonds generating total return approximately twice that of the highest-quality municipal issuance (Barclays Municipal BBB-rated up 14.08% for the twelve months ended November 30, 2012 vs. 7.30% for Barclays Municipal AAA-rated). Investors seemed willing to recognize the unique circumstances of problem credits, rather than viewing them as symptomatic of broader credit trends.

Contributors to Performance

Strong bond selection was a key factor for the fund s positive excess return over the Barclays Municipal Bond Index. A greater exposure to BBB rated securities, and a lesser exposure to AA rated securities, also benefited relative returns as credit spreads narrowed during the reporting period.

The fund s security selection and an overweight allocation to the *health care* sector, and favorable bond selection in the *general obligation*, *tobacco*, and *utilities* sectors, were additional positive factors for relative results.

During the reporting period, the fund benefited from the tender and repurchase of a portion of the fund s ARPS at 95% of the fund ARPS per share liquidation preference.

The fund employs leverage which has been created through the issuance of ARPS and VMTPS. To the extent that investments are purchased through the use of leverage, the fund s net asset value will increase or decrease at a greater rate than a comparable unleveraged fund. During the reporting period, the fund s leverage enhanced its absolute positive performance.

Detractors from Performance

The fund s short positions in U.S. Treasury futures, which were used to hedge the duration[d] of the municipal securities held by the fund, detracted from relative performance as U.S. Treasuries rallied throughout the year. The benchmark does not hold U.S. Treasury futures.

Respectfully,

Gary Lasman	Geoffrey Schechter
Portfolio Manager	Portfolio Manager

(d) Duration is a measure of how much a bond s price is likely to fluctuate with general changes in interest rates, e.g., if rates rise 1.00%, a bond with a 5-year duration is likely to lose about 5.00% of its value.

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Management Review continued

(r) Bonds rated BBB , Baa , or higher are considered investment grade; bonds rated BB , Ba , or below are considered non-investment grade. The sources for bond quality ratings are Moody s Investors Service, Standard & Poor s and Fitch, Inc. and are applied using the following hierarchy: If all three agencies provide a rating, the middle rating (after dropping the highest and lowest ratings) is assigned; if two of the three agencies rate a security, the lower of the two is assigned. Ratings are shown in the S&P and Fitch scale (e.g., AAA). For securities which are not rated by any of the three agencies, the security is considered Not Rated.

The views expressed in this report are those of the portfolio managers only through the end of the period of the report as stated on the cover and do not necessarily reflect the views of MFS or any other person in the MFS organization. These views are subject to change at any time based on market or other conditions, and MFS disclaims any responsibility to update such views. These views may not be relied upon as investment advice or an indication of trading intent on behalf of any MFS portfolio. References to specific securities are not recommendations of such securities, and may not be representative of any MFS portfolio s current or future investments.

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PERFORMANCE SUMMARY THROUGH 11/30/12

The following chart represents the fund s historical performance in comparison to its benchmark(s). Investment return and principal value will fluctuate, and shares, when sold, may be worth more or less than their original cost; current performance may be lower or higher than quoted. The performance shown does not reflect the deduction of taxes, if any, that a shareholder would pay on fund distributions or the sale of fund shares. Performance data shown represents past performance and is no guarantee of future results.

Price Summary for MFS High Income Municipal Trust

Year Ended 11/30/12

	Date	Price
Net Asset Value	11/30/12	$5.61
	11/30/11	$4.75
New York Stock Exchange Price	11/30/12	$5.83
	9/28/12 (high) (t)	$6.03
	12/01/11 (low) (t)	$4.98
	11/30/11	$5.03

Total Returns vs Benchmark

Year Ended 11/30/12

MFS High Income Municipal Trust at New York Stock Exchange Price (r)	24.17%
Net Asset Value (r)(y)	26.52%
Barclays Municipal Bond Index (f)	10.17%

(f) Source: FactSet Research Systems Inc.

(r) Includes reinvestment of dividends and capital gain distributions.

(t) For the period December 1, 2011 through November 30, 2012.

(y) Included in the total return at net asset value is the impact of the tender and repurchase by the fund of a portion of its ARPS at 95% of the ARPS per share liquidation preference. Had this transaction not occurred, the total return at net asset value would have been lower by 2.64%.

Benchmark Definition

Barclays Municipal Bond Index a market capitalization-weighted index that measures the performance of the tax-exempt bond market.

It is not possible to invest directly in an index.

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Performance Summary continued

In accordance with Section 23(c) of the Investment Company Act of 1940, the fund hereby gives notice that it may from time to time repurchase common and/or preferred shares of the fund in the open market at the option of the Board of Trustees and on such terms as the Trustees shall determine.

Notes to Performance Summary

The fund s shares may trade at a discount or premium to net asset value. Shareholders do not have the right to cause the fund to repurchase their shares at net asset value. When fund shares trade at a premium, buyers pay more than the net asset value underlying fund shares, and shares purchased at a premium would receive less than the amount paid for them in the event of the fund s liquidation. As a result, the total return that is calculated based on the net asset value and New York Stock Exchange price can be different.

Net asset values and performance results do not include adjustments made for financial reporting purposes in accordance with U.S. generally accepted accounting principles and may differ from amounts reported in the Statement of Assets and Liabilities or the Financial Highlights.

From time to time the fund may receive proceeds from litigation settlements, without which performance would be lower.

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INVESTMENT OBJECTIVE, PRINCIPAL INVESTMENT STRATEGIES AND RISKS OF THE FUND

Investment Objective

The fund s investment objective is to seek high current income exempt from federal income tax, but may also consider capital appreciation. The fund s objective may be changed without shareholder approval.

Principal Investment Strategies

The fund invests, under normal market conditions, at least 80% of its net assets, including assets attributable to preferred shares and borrowings for investment purposes, in tax-exempt bonds and tax-exempt notes. This policy may not be changed without shareholder approval. Tax-exempt bonds and tax-exempt notes are municipal instruments, the interest of which is exempt from federal income tax. Interest from the fund s investments may be subject to the federal alternative minimum tax.

MFS (Massachusetts Financial Services Company, the fund s investment adviser) may invest 25% or more of the fund s total assets in municipal instruments that finance similar projects, such as those relating to education, healthcare, housing, utilities, water, or sewers. Although MFS seeks to invest the funds assets in municipal instruments whose interest is exempt from federal personal income tax, MFS may also invest in taxable instruments, including derivatives.

MFS may invest up to 100% of the fund s assets in less than investment grade quality debt instruments (lower quality debt instruments).

MFS may invest a relatively large percentage of the fund s assets in a single issuer or a small number of issuers.

While MFS may use derivatives for any investment purpose, to the extent MFS uses derivatives, MFS expects to use derivatives primarily to increase or decrease exposure to a particular market, segment of the market, or security, to increase or decrease interest rate exposure, or as alternatives to direct investments.

MFS uses a bottom-up investment approach to buying and selling investments for the fund. Investments are selected primarily based on fundamental analysis of individual instruments and their issuers in light of issuers financial condition and market, economic, political, and regulatory conditions. Factors considered may include the instrument s credit quality, collateral characteristics, and indenture provisions, and the issuer s management ability, capital structure, leverage, and ability to meet its current obligations. Quantitative models that systematically evaluate the structure of the debt instrument and its features may also be considered. In structuring the fund, MFS may also consider top-down factors, including sector allocations, yield curve positioning, macroeconomic factors and risk management factors.

The fund uses leverage through the issuance of preferred shares and/or the creation of tender option bonds, and then investing the proceeds pursuant to its investment strategies. If approved by the fund s Board of Trustees, the fund may use leverage by other methods.

MFS may engage in active and frequent trading in pursuing the fund principal investment strategies.

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Investment Objective, Principal Investment Strategies and Risks of the Fund continued

In response to market, economic, political, or other conditions, MFS may depart from the fund s principal investment strategies by temporarily investing for defensive purposes.

Principal Risks

The fund may not achieve its objective and/or you could lose money on your investment in the fund.

Investments in debt instruments may decline in value as the result of increases in interest rates, declines in the credit quality of the issuer, borrower, counterparty or underlying collateral or assets and the terms of the instrument, or changes in economic, political, issuer-specific, or other conditions. Certain types of debt instruments can be more sensitive to these factors and therefore more volatile.

Investments in derivatives can be used to take both long and short positions, be highly volatile, result in leverage (which can magnify losses), and involve risks in addition to the risks of the underlying indicator(s) on which the derivative is based, such as counterparty and liquidity risk.

Investments in lower-quality debt instruments can be more volatile and have greater risk of default than higher-quality debt instruments.

Investments in municipal instruments can be volatile and significantly affected by adverse tax or court rulings, legislative or political changes, market and economic conditions, issuer, industry-specific (including the credit quality of municipal insurers), and other conditions.

The market price of common shares of the fund will be based on factors such as the supply and demand for common shares in the market and general market, economic, political or regulatory conditions. Whether shareholders will realize gains or losses upon the sale of common shares of the fund will depend on the market price of common shares at the time of the sale, not on the fund s net asset value. The market price may be lower or higher than the fund s net asset value. Shares of closed-end funds frequently trade at a discount or premium to their net asset value.

Leverage involves investment exposure in an amount exceeding the initial investment. Leverage can cause increased volatility by magnifying gains or losses.

To the extent that investments are purchased with the issuance of preferred shares, the fund s net asset value will increase or decrease at a greater rate than a comparable unleveraged fund.

Please see the fund s registration statement for further information regarding these and other risk considerations. A copy of the fund s registration statement on Form N-2 is available on the EDGAR database on the Securities and Exchange Commission s Internet Web site at *http://sec.gov.*

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PORTFOLIO MANAGERS   PROFILES

Gary Lasman	Investment Officer of MFS; employed in the investment management area of MFS since 2002. Portfolio Manager of the Fund since June 2007.
Geoffrey Schechter	Investment Officer of MFS; employed in the investment management area of MFS since 1993. Portfolio Manager of the Fund since June 2007.

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DIVIDEND REINVESTMENT AND

CASH PURCHASE PLAN

The fund offers a Dividend Reinvestment and Cash Purchase Plan (the Plan) that allows common shareholders to reinvest either all of the distributions paid by the fund or only the long-term capital gains. Generally, purchases are made at the market price unless that price exceeds the net asset value (the shares are trading at a premium). If the shares are trading at a premium, purchases will be made at a price of either the net asset value or 95% of the market price, whichever is greater. You can also buy shares on a quarterly basis in any amount $100 and over. The Plan Agent will purchase shares under the Cash Purchase Plan on the 15th of January, April, July, and October or shortly thereafter.

If shares are registered in your own name, new shareholders will automatically participate in the Plan, unless you have indicated that you do not wish to participate. If your shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you may wish to request that your shares be re-registered in your own name so that you can participate. There is no service charge to reinvest distributions, nor are there brokerage charges for shares issued directly by the fund. However, when shares are bought on the New York Stock Exchange or otherwise on the open market, each participant pays a pro rata share of the transaction expenses, including commissions. Dividends and capital gains distributions are taxable whether received in cash or reinvested in additional shares the automatic reinvestment of distributions does not relieve you of any income tax that may be payable (or required to be withheld) on the distributions.

You may withdraw from the Plan at any time by going to the Plan Agent s website at www.computershare.com, by calling 1-800-637-2304 any business day from 9 a.m. to 5 p.m. Eastern time or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940 - 3078. Please have available the name of the fund and your account number. For certain types of registrations, such as corporate accounts, instructions must be submitted in writing. Please call for additional details. When you withdraw from the Plan, you can receive the value of the reinvested shares in one of three ways: your full shares will be held in your account, the Plan Agent will sell your shares and send the proceeds to you, or you may transfer your full shares to your investment professional who can hold or sell them. Additionally, the Plan Agent will sell your fractional shares and send the proceeds to you.

If you have any questions or for further information or a copy of the Plan, contact the Plan Agent Computershare Trust Company, N.A. (the Transfer Agent for the fund) at 1-800-637-2304, at the Plan Agent s website at www.computershare.com, or by writing to the Plan Agent at P.O. Box 43078, Providence, RI 02940 - 3078.

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PORTFOLIO OF INVESTMENTS

11/30/12

The Portfolio of Investments is a complete list of all securities owned by your fund. It is categorized by broad-based asset classes.

Municipal Bonds - 151.4%		
Issuer	**Shares/Par**	**Value ($)**
Airport Revenue - 5.4%		
Burlington, VT, Airport Rev., A , 4%, 2028	$ 110,000	$ 107,500
Denver, CO, City & County Airport Systems Rev., A , 5%, 2027	210,000	248,054
Denver, CO, City & County Airport Systems Rev., A , 5%, 2028	205,000	240,215
Denver, CO, City & County Airport Systems Rev., B , 5%, 2032	410,000	485,470
Denver, CO, City & County Airport, B , ETM, 6.125%, 2025 (c)	2,840,000	2,848,206
Denver, CO, City & County Airport, C , ETM, 6.125%, 2025 (c)	2,280,000	3,209,920
Houston, TX, Airport System Rev., B , 5%, 2026	210,000	253,697
Houston, TX, Airport System Rev., Subordinate Lien, A , 5%, 2031	195,000	224,431
Port Authority of NY & NJ, Special Obligation Rev. (JFK International Air Terminal LLC), 6%, 2036	315,000	372,599
Port Authority of NY & NJ, Special Obligation Rev. (JFK International Air Terminal LLC), 6%, 2042	360,000	425,828
San Jose, CA, Airport Rev., A-2 , 5.25%, 2034	960,000	1,099,247
		$ 9,515,167
General Obligations - General Purpose - 3.5%		
Allegheny County, PA, C-70 , 5%, 2037	$ 340,000	$ 389,153
Bellwood, IL, General Obligation, 5.875%, 2027	200,000	198,915
Bellwood, IL, General Obligation, 6.15%, 2032	300,000	297,275
Chicago, IL, Metropolitan Water Reclamation District-Greater Chicago, C , 5%, 2030	1,000,000	1,216,311
Las Vegas Valley, NV, Water District, C , 5%, 2029	1,175,000	1,415,369
Luzerne County, PA, AGM, 6.75%, 2023	570,000	683,133
State of California, 5.25%, 2028	425,000	526,111
State of California, 5.25%, 2030	1,005,000	1,217,205
State of Hawaii, DZ , 5%, 2031	255,000	313,412
		$ 6,256,884
General Obligations - Improvement - 0.1%		
Guam Government, A , 7%, 2039	$ 110,000	$ 127,236
General Obligations - Schools - 1.1%		
Beverly Hills, CA, Unified School District (Election of 2008), Capital Appreciation, 0%, 2031	$ 350,000	$ 181,206
Beverly Hills, CA, Unified School District (Election of 2008), Capital Appreciation, 0%, 2032	355,000	175,381
Beverly Hills, CA, Unified School District (Election of 2008), Capital Appreciation, 0%, 2033	715,000	336,658
Frisco, TX, Independent School District, School Building, B , 3%, 2042	370,000	358,641

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
General Obligations - Schools - continued		
Los Angeles, CA, Unified School District, D , 5%, 2034	$ 210,000	$ 243,149
San Jacinto, TX, Community College District, 5.125%, 2038	550,000	634,678
		$ 1,929,713
Healthcare Revenue - Hospitals - 35.8%		
Allegheny County, PA, Hospital Development Authority Rev. (University of Pittsburgh Medical Center), A , 5.375%, 2029	$ 560,000	$ 664,731
Allegheny County, PA, Hospital Development Authority Rev. (West Penn Allegheny Health), A , 5%, 2028	75,000	51,770
Brunswick, GA, Hospital Authority Rev. (Glynn-Brunswick Memorial Hospital), 5.625%, 2034	220,000	249,458
Butler County, OH, Hospital Facilities Rev. (UC Health), 5.5%, 2040	750,000	826,110
Butler County, OH, Hospital Facilities Rev. (UC Health), 5.75%, 2040	165,000	184,518
California Health Facilities Financing Authority Rev. (St. Joseph Health System), A , 5.75%, 2039	125,000	145,525
California Health Facilities Financing Authority Rev. (Sutter Health), A , 5%, 2042	1,000,000	1,102,830
California Health Facilities Financing Authority Rev. (Sutter Health), B , 5.875%, 2031	835,000	1,019,994
California Statewide Communities Development Authority Rev. (Catholic Healthcare West), K , ASSD GTY, 5.5%, 2041	1,545,000	1,662,296
Cullman County, AL, Health Care Authority (Cullman Regional Medical Center), A , 6.75%, 2029	75,000	81,999
Delaware County, PA, Authority Rev. (Mercy Health Corp.), ETM, 6%, 2016 (c)	835,000	922,374
Delaware County, PA, Authority Rev. (Mercy Health Corp.), ETM, 6%, 2026 (c)	1,000,000	1,118,360
Duluth, MN, Economic Development Authority Health Care Facilities Rev. (St. Luke s Hospital Authority Obligation Group), 5.75%, 2027	170,000	183,988
Duluth, MN, Economic Development Authority Health Care Facilities Rev. (St. Luke s Hospital Authority Obligation Group), 5.75%, 2032	375,000	401,389
Duluth, MN, Economic Development Authority Health Care Facilities Rev. (St. Luke s Hospital Authority Obligation Group), 6%, 2039	445,000	481,552
Gallia County, OH, Hospital Facilities Rev. (Holzer Health Systems), A , 8%, 2042	1,195,000	1,397,469
Harris County, TX, Cultural Education Facilities Finance Corp. Medical Facilities Rev. (Baylor College of Medicine), D , 5.625%, 2032	330,000	374,722
Harris County, TX, Health Facilities Development Corp., Hospital Rev. (Memorial Hermann Healthcare Systems), B , 7.25%, 2035	235,000	299,583
Idaho Health Facilities Authority Rev. (IHC Hospitals, Inc.), ETM, 6.65%, 2021 (c)	1,750,000	2,444,085
Illinois Finance Authority Rev. (Advocate Healthcare), 4%, 2047	390,000	399,290
Illinois Finance Authority Rev. (Kewanee Hospital), 5.1%, 2031	505,000	532,750

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Hospitals - continued		
Illinois Finance Authority Rev. (Provena Health), A , 7.75%, 2034	$ 620,000	$ 807,445
Illinois Finance Authority Rev. (Silver Cross Hospital & Medical Centers), 6.875%, 2038	615,000	743,590
Indiana Health & Educational Facilities Finance Authority Rev. (Sisters of St. Francis Health Services, Inc.), E , AGM, 5.25%, 2041	145,000	157,469
Indiana Health & Educational Facilities Finance Authority, Hospital Rev. (Clarian Health), A , 5%, 2039	2,255,000	2,429,131
Indiana Health & Educational Facilities Finance Authority, Hospital Rev. (Community Foundation of Northwest Indiana), 5.5%, 2037	1,220,000	1,340,499
Indiana Health & Educational Financing Authority Rev. (Community Foundation of Northwest Indiana), A , 6%, 2034	575,000	621,150
Jefferson Parish, LA, Hospital Service District No. 2 (East Jefferson General Hospital), 6.25%, 2031	380,000	446,948
Jefferson Parish, LA, Hospital Service District No. 2 (East Jefferson General Hospital), 6.375%, 2041	240,000	284,266
Johnson City, TN, Health & Educational Facilities Board, Hospital Rev. (Mountain States Health Alliance), A , 5.5%, 2031	1,455,000	1,591,261
Johnson City, TN, Health & Educational Facilities Board, Hospital Rev. (Mountain States Health Alliance), A , 5.5%, 2036	535,000	579,410
Kentucky Economic Development Finance Authority, Hospital Facilities Rev. (Baptist Healthcare System), A , 5.375%, 2024	375,000	434,899
Kentucky Economic Development Finance Authority, Hospital Facilities Rev. (Baptist Healthcare System), A , 5.625%, 2027	125,000	146,333
Kentucky Economic Development Finance Authority, Hospital Facilities Rev. (Owensboro Medical Health System), A , 6.375%, 2040	735,000	880,648
Knox County, IN, Economic Development Rev. (Good Samaritan Hospital), A , 5%, 2037	65,000	73,026
Knox County, IN, Economic Development Rev. (Good Samaritan Hospital), A , 5%, 2042	130,000	144,299
Lake County, OH, Hospital Facilities Rev. (Lake Hospital Systems, Inc.), 5.625%, 2029	565,000	643,032
Laramie County, WY, Hospital Rev. (Cheyenne Regional Medical Center Project), 5%, 2032	50,000	56,744
Laramie County, WY, Hospital Rev. (Cheyenne Regional Medical Center Project), 5%, 2037	125,000	139,998
Laramie County, WY, Hospital Rev. (Cheyenne Regional Medical Center Project), 5%, 2042	250,000	278,058
Louisiana Public Facilities Authority Hospital Rev. (Lake Charles Memorial Hospital), 6.375%, 2034	1,125,000	1,226,340
Louisville & Jefferson County, KY, Metro Government Health Facilities Rev. (Jewish Hospital & St. Mary s Healthcare), 6.125%, 2018 (c)	1,685,000	2,139,225
Louisville & Jefferson County, KY, Metropolitan Government Healthcare Systems Rev. (Norton Healthcare, Inc.), 5.25%, 2036	420,000	444,520

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Hospitals - continued		
Lufkin, TX, Health Facilities Development Corp. Rev. (Memorial Health System), 5.5%, 2037	$ 75,000	$ 77,833
Martin County, FL, Health Facilities Authority Rev. (Martin Memorial Medical Center), 5.5%, 2042	380,000	420,991
Maryland Health & Higher Educational Facilities Authority Rev. (Anne Arundel Health System, Inc.), A , 6.75%, 2039	945,000	1,203,429
Massachusetts Development Finance Agency Rev. (Tufts Medical Center), I , 7.25%, 2032	555,000	699,344
Massachusetts Health & Educational Facilities Authority Rev. (Jordan Hospital), E , 6.75%, 2033	500,000	508,900
Michigan Finance Authority Rev. (Trinity Health Corp.), 5%, 2035	1,250,000	1,440,375
Monroe County, PA, Hospital Authority Rev. (Pocono Medical Center), A , 5%, 2032	65,000	71,671
Monroe County, PA, Hospital Authority Rev. (Pocono Medical Center), A , 5%, 2041	45,000	48,786
Montgomery, AL, Medical Clinic Board Health Care Facility Rev. (Jackson Hospital & Clinic), 5.25%, 2031	155,000	160,392
Montgomery, AL, Medical Clinic Board Health Care Facility Rev. (Jackson Hospital & Clinic), 5.25%, 2036	800,000	822,936
Nassau County, NY, Local Economic Assistance Corp. Rev. (Winthrop-University Hospital Association Project), 5%, 2032	105,000	117,352
Nassau County, NY, Local Economic Assistance Corp. Rev. (Winthrop-University Hospital Association Project), 5%, 2037	205,000	227,009
New Hampshire Business Finance Authority Rev. (Elliot Hospital Obligated Group), A , 6%, 2027	745,000	878,906
New Hampshire Health & Education Facilities Authority Rev. (Memorial Hospital at Conway), 5.25%, 2036	800,000	811,944
New Hanover County, NC, Hospital Rev., AGM, 5.125%, 2031	1,130,000	1,280,832
New Jersey Health Care Facilities, Financing Authority Rev. (St. Peter s University Hospital), 5.75%, 2037	700,000	747,292
New Mexico Hospital Equipment Loan Council, Hospital Rev. (Rehoboth McKinley Christian Hospital), A , 5%, 2017	260,000	260,952
New York Dormitory Authority Rev., Non-State Supported Debt (Bronx-Lebanon Hospital Center), LOC, 6.5%, 2030	245,000	300,431
New York Dormitory Authority Rev., Non-State Supported Debt (Bronx-Lebanon Hospital Center), LOC, 6.25%, 2035	150,000	178,296
Norman, OK, Regional Hospital Authority Rev., 5%, 2027	195,000	201,967
Norman, OK, Regional Hospital Authority Rev., 5.375%, 2029	115,000	118,979
Norman, OK, Regional Hospital Authority Rev., 5.375%, 2036	305,000	312,381
North Carolina Medical Care Commission (Stanly Health Services, Inc.), 6.375%, 2029	1,915,000	1,922,794
Olympia, WA, Healthcare Facilities Authority Rev. (Catholic Health Initiatives), D , 6.375%, 2036	1,405,000	1,705,024

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Hospitals - continued		
Palomar Pomerado Health Care District, CA, COP, 6.75%, 2039	$ 1,125,000	$ 1,293,908
Rhode Island Health & Educational Building Corp. Rev., Hospital Financing (Lifespan Obligated Group), A , ASSD GTY, 7%, 2039	840,000	1,010,974
Royal Oak, MI, Hospital Finance Authority Rev. (William Beaumont Hospital), 8.25%, 2039	660,000	859,624
Salida, CO, Hospital District Rev., 5.25%, 2036	889,000	911,492
Skagit County, WA, Public Hospital District No. 001 Rev. (Skagit Valley Hospital), 5.75%, 2032	120,000	128,293
South Carolina Jobs & Economic Development Authority (Bon Secours - Venice Healthcare Corp.), 5.5%, 2023	1,370,000	1,375,206
South Dakota Health & Educational Facilities Authority Rev. (Avera Health), A , 5%, 2042	135,000	150,624
South Dakota Health & Educational Facilities Authority Rev. (Sanford), E , 5%, 2037	110,000	123,806
South Dakota Health & Educational Facilities Authority Rev. (Sanford), E , 5%, 2042	375,000	424,080
South Lake County, FL, Hospital District Rev. (South Lake Hospital), 6.375%, 2034	500,000	521,730
South Lake County, FL, Hospital District Rev. (South Lake Hospital), A , 6%, 2029	175,000	202,836
South Lake County, FL, Hospital District Rev. (South Lake Hospital), A , 6.25%, 2039	100,000	115,777
Southeastern Ohio Port Authority, Hospital Facilities Rev. (Memorial Health System), 5.75%, 2032	380,000	407,444
Southeastern Ohio Port Authority, Hospital Facilities Rev. (Memorial Health System), 6%, 2042	305,000	328,503
Sullivan County, TN, Health, Educational & Housing Facilities Board Hospital Rev. (Wellmont Health Systems Project), C , 5.25%, 2036	225,000	240,221
Sumner County, TN, Health, Educational & Housing Facilities Board Rev. (Sumner Regional Health Systems, Inc.), A , 5.5%, 2046 (a)(d)	475,000	5,938
Tampa, FL, Hospital Rev. (H. Lee Moffitt Cancer Center), A , 5.75%, 2029	2,000,000	2,000,300
Tyler, TX, Health Facilities Development Corp. (East Texas Medical Center), A , 5.25%, 2032	290,000	309,450
Tyler, TX, Health Facilities Development Corp. (East Texas Medical Center), A , 5.375%, 2037	235,000	247,330
Washington Health Care Facilities Authority Rev. (Multicare Health Systems), B , ASSD GTY, 6%, 2039	560,000	664,916
Washington Health Care Facilities Authority Rev. (Providence Health & Services), A , 5%, 2033	1,395,000	1,607,682
Wisconsin Health & Educational Facilities Authority Rev. (Aurora Health Care, Inc.), 6.4%, 2033	525,000	533,038

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Hospitals - continued		
Wisconsin Health & Educational Facilities Authority Rev. (Aurora Health Care, Inc.), A , 5%, 2026	$ 250,000	$ 291,195
Wisconsin Health & Educational Facilities Authority Rev. (Aurora Health Care, Inc.), A , 5%, 2028	75,000	84,848
Wisconsin Health & Educational Facilities Authority Rev. (Fort Healthcare, Inc.), 5.75%, 2029	1,000,000	1,052,560
Wisconsin Health & Educational Facilities Authority Rev. (Meritor Hospital), A , 5.5%, 2031	920,000	1,056,565
Wisconsin Health & Educational Facilities Authority Rev. (Meritor Hospital), A , 6%, 2041	605,000	714,293
Wisconsin Health & Educational Facilities Authority Rev. (Wheaton Franciscan Services), 5.25%, 2034	865,000	927,842
Wisconsin Health & Educational Facilities Authority Rev. (Wheaton Franciscan Services), A , 5.25%, 2025	500,000	514,345
Wood County, OH, Hospital Facilities Rev. (Wood County Hospital Project), 5%, 2037	180,000	193,320
Wood County, OH, Hospital Facilities Rev. (Wood County Hospital Project), 5%, 2042	180,000	193,320
		$ 63,163,360
Healthcare Revenue - Long Term Care - 15.8%		
Abilene, TX, Health Facilities Development Corp., Retirement Facilities Rev. (Sears Methodist Retirement Systems, Inc.), A , 5.9%, 2025	$ 964,000	$ 634,351
Abilene, TX, Health Facilities Development Corp., Retirement Facilities Rev. (Sears Methodist Retirement Systems, Inc.), A , 7%, 2033	500,000	328,550
Bucks County, PA, Industrial Development Authority Retirement Community Rev. (Ann s Choice, Inc.), A , 6.125%, 2025	1,000,000	1,010,850
Bucks County, PA, Industrial Development Authority Rev. (Lutheran Community Telford Center), 5.75%, 2027	120,000	123,674
Bucks County, PA, Industrial Development Authority Rev. (Lutheran Community Telford Center), 5.75%, 2037	155,000	157,235
California Statewide Communities Development Authority Rev. (Episcopal Communities & Services for Seniors Obligated Group), 5%, 2027	20,000	23,002
California Statewide Communities Development Authority Rev. (Episcopal Communities & Services for Seniors Obligated Group), 5%, 2032	25,000	28,316
California Statewide Communities Development Authority Rev. (Episcopal Communities & Services for Seniors Obligated Group), 5%, 2042	70,000	77,668
Chester County, PA, Industrial Development Authority Rev. (RHA Nursing Home), 8.5%, 2032	1,445,000	1,417,285
Colorado Health Facilities Authority Rev. (American Baptist Homes), A , 5.9%, 2037	530,000	537,908
Colorado Health Facilities Authority Rev. (Christian Living Communities), 5.125%, 2030	40,000	41,632

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Long Term Care - continued		
Colorado Health Facilities Authority Rev. (Christian Living Communities), 5.25%, 2037	$ 55,000	$ 56,719
Colorado Health Facilities Authority Rev. (Covenant Retirement Communities, Inc.), 5%, 2035	1,400,000	1,456,280
Cumberland County, PA, Municipal Authority Rev. (Asbury Atlantic, Inc.), 5.25%, 2041	355,000	365,309
Cumberland County, PA, Municipal Authority Rev. (Diakon Lutheran Social Ministries), 6.125%, 2029	890,000	1,005,869
Fulton County, GA, Residential Care Facilities, Elderly Authority Rev. (Canterbury Court), A , 6.125%, 2034	750,000	767,198
Hawaii Department of Budget & Finance, Special Purpose Rev. (15 Craigside Project), A , 8.75%, 2029	105,000	126,083
Hawaii Department of Budget & Finance, Special Purpose Rev. (15 Craigside Project), A , 9%, 2044	180,000	216,988
Houston, TX, Health Facilities Development Corp. (Buckingham Senior Living Community), A , 7.125%, 2014 (c)	500,000	545,255
Howard County, MD, Retirement Facilities Rev. (Vantage House Corp.), A , 5.25%, 2033	250,000	249,980
Illinois Finance Authority Rev. (Evangelical Retirement Homes of Greater Chicago, Inc.), 7.25%, 2045	1,050,000	1,170,383
Illinois Finance Authority Rev. (Lutheran Home & Services), 5.625%, 2042	230,000	235,147
Illinois Finance Authority Rev. (Smith Village), A , 6.25%, 2035	1,250,000	1,278,175
Illinois Health Facilities Authority Rev. (Smith Crossing), A , 7%, 2032	725,000	732,787
Iowa Finance Authority, Health Care Facilities Rev. (Care Initiatives), B , 5.75%, 2018	365,000	365,850
Iowa Finance Authority, Health Care Facilities Rev. (Care Initiatives), B , 5.75%, 2028	1,475,000	1,477,640
Kentucky Economic Development Finance Authority Health Care Rev. (Masonic Homes of Kentucky, Inc.), 5.375%, 2042	170,000	173,738
Kentucky Economic Development Finance Authority Health Care Rev. (Masonic Homes of Kentucky, Inc.), 5.5%, 2045	95,000	96,967
La Verne, CA, COP (Brethren Hillcrest Homes), B , 6.625%, 2025	690,000	700,205
Marion, IA, Health Care Facilities Rev., First Mortgage (AHF/Kentucky-Iowa, Inc.), 8%, 2029	514,000	528,248
Massachusetts Development Finance Agency Rev. (Adventcare), A , 6.75%, 2037	895,000	949,506
Massachusetts Development Finance Agency Rev. (Alliance Health of Brockton, Inc.), A , 7.1%, 2032	1,115,000	1,115,279
Massachusetts Development Finance Agency Rev. (Linden Ponds, Inc.), A-1 , 6.25%, 2031	168,995	139,669
Massachusetts Development Finance Agency Rev. (Linden Ponds, Inc.), A-1 , 6.25%, 2039	42,309	33,025

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Long Term Care - continued		
Massachusetts Development Finance Agency Rev. (Linden Ponds, Inc.), A-2 , 5.5%, 2046	$ 11,291	$ 7,667
Massachusetts Development Finance Agency Rev. (Linden Ponds, Inc.), Capital Appreciation, B , 0%, 2056	56,165	812
Massachusetts Development Finance Agency Rev. (Loomis Communities, Inc.), A , 5.625%, 2015	190,000	190,257
Massachusetts Development Finance Agency Rev. (Loomis Communities, Inc.), A , 6.9%, 2032	100,000	102,145
Massachusetts Development Finance Agency Rev. (The Groves in Lincoln), A , 7.75%, 2039	100,000	47,909
Massachusetts Development Finance Agency Rev. (The Groves in Lincoln), A , 7.875%, 2044	150,000	71,865
Metropolitan Government of Nashville & Davidson County, TN, Health & Educational Facilities Board, First Mortgage, 8.5%, 2029	1,063,000	1,079,955
Montgomery County, PA, Industrial Development Authority Retirement Community Rev. (ACTS Retirement - Life Communities, Inc.), 5%, 2028	440,000	498,736
Montgomery County, PA, Industrial Development Authority Retirement Community Rev. (ACTS Retirement - Life Communities, Inc.), 5%, 2029	165,000	184,473
Montgomery County, PA, Industrial Development Authority Rev. (Whitemarsh Continuing Care), 6.125%, 2028	250,000	255,455
Montgomery County, PA, Industrial Development Authority Rev. (Whitemarsh Continuing Care), 6.25%, 2035	750,000	765,188
New Jersey Economic Development Authority Rev. (Lions Gate), A , 5.75%, 2025	205,000	209,229
New Jersey Economic Development Authority Rev. (Lions Gate), A , 5.875%, 2037	830,000	838,242
New Jersey Economic Development Authority Rev. (Seabrook Village, Inc.), 5.25%, 2026	50,000	52,185
Norfolk, VA, Redevelopment & Housing Authority Rev. (Fort Norfolk Retirement Community), A , 6.125%, 2035	140,000	141,138
Pell City, AL, Special Care Facilities, Financing Authority Rev. (Noland Health Services, Inc.), 5%, 2039	225,000	246,292
Shelby County, TN, Health, Educational & Housing Facilities Board Rev. (Germantown Village), A , 7.25%, 2034	350,000	373,965
South Carolina Jobs & Economic Development Authority Rev. (Woodlands at Furman), A , 6%, 2032	260,226	204,876
South Carolina Jobs & Economic Development Authority Rev. (Woodlands at Furman), A , 6%, 2047	238,838	175,876
South Carolina Jobs & Economic Development Authority Rev. (Woodlands at Furman), Capital Appreciation, B , 0%, 2047	111,525	4,310
South Carolina Jobs & Economic Development Authority Rev. (Woodlands at Furman), Capital Appreciation, B , 0%, 2047	102,359	3,956

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Healthcare Revenue - Long Term Care - continued		
St. John s County, FL, Industrial Development Authority Rev. (Presbyterian Retirement), A , 6%, 2045	$ 780,000	$ 882,500
Tarrant County, TX, Cultural Education Facilities Finance Corp. Retirement Facility (Air Force Village Foundation, Inc.), 6.125%, 2029	65,000	73,008
Tarrant County, TX, Cultural Education Facilities Finance Corp. Retirement Facility (Air Force Village Foundation, Inc.), 5.125%, 2037	65,000	65,991
Tarrant County, TX, Cultural Education Facilities Finance Corp. Retirement Facility (Air Force Village Foundation, Inc.), 6.375%, 2044	525,000	580,829
Tarrant County, TX, Cultural Education Facilities Finance Corp. Retirement Facility (Stayton at Museum Way), 8.25%, 2044	980,000	1,107,831
Tempe, AZ, Industrial Development Authority Rev. (Friendship Village), A , 6.25%, 2042	110,000	121,028
Tempe, AZ, Industrial Development Authority Rev. (Friendship Village), A , 6.25%, 2046	85,000	93,392
Travis County, TX, Health Facilities Development Corp. Rev. (Westminster Manor Health), 7%, 2030	110,000	133,002
Travis County, TX, Health Facilities Development Corp. Rev. (Westminster Manor Health), 7.125%, 2040	165,000	198,281
Washington County, PA, Industrial Development Authority Rev., First Mortgage (AHF/Central Project), 8.5%, 2029	1,059,000	1,072,206
		$ 27,949,370
Healthcare Revenue - Other - 0.3%		
Massachusetts Health & Educational Facilities Authority Rev. (Civic Investments, Inc.), A , 9%, 2012 (c)	$ 500,000	$ 509,265
Industrial Revenue - Airlines - 3.1%		
Clayton County, GA, Development Authority Special Facilities Rev. (Delta Airlines, Inc.), A , 8.75%, 2029	$ 255,000	$ 323,067
Clayton County, GA, Development Authority Special Facilities Rev. (Delta Airlines, Inc.), B , 9%, 2035	190,000	213,347
Denver, CO, City & County Airport Rev. (United Airlines), 5.75%, 2032	470,000	493,312
Houston, TX, Airport Systems Rev., Special Facilities (Continental Airlines, Inc. Terminal E project), 6.75%, 2029	500,000	501,905
Houston, TX, Airport Systems Rev., Special Facilities (Continental Airlines, Inc. Terminal E project), 7%, 2029	250,000	251,205
New Jersey Economic Development Authority, Special Facilities Rev. (Continental Airlines, Inc.), 4.875%, 2019	850,000	875,398
New Jersey Economic Development Authority, Special Facilities Rev. (Continental Airlines, Inc.), 5.125%, 2023	455,000	471,953
New Jersey Economic Development Authority, Special Facilities Rev. (Continental Airlines, Inc.), 5.25%, 2029 (b)	455,000	472,317

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Industrial Revenue - Airlines - continued		
New Jersey Economic Development Authority, Special Facilities Rev. (Continental Airlines, Inc.), 9%, 2033	$ 750,000	$ 783,713
New York, NY, City Industrial Development Agencies Rev. (American Airlines, Inc.), 7.75%, 2031 (d)(q)	1,005,000	1,068,757
		$ 5,454,974
Industrial Revenue - Chemicals - 0.8%		
Brazos River, TX, Harbor Navigation District (Dow Chemical Co.), B-2 , 4.95%, 2033	$ 600,000	$ 653,328
Port of Bay, TX, City Authority (Hoechst Celanese Corp.), 6.5%, 2026	840,000	840,882
		$ 1,494,210
Industrial Revenue - Environmental Services - 2.1%		
California Pollution Control Financing Authority, Solid Waste Disposal Rev. (Republic Services, Inc.), B , 5.25%, 2023 (b)	$ 270,000	$ 310,635
California Pollution Control Financing Authority, Solid Waste Disposal Rev. (Waste Management, Inc.), C , 5.125%, 2023	845,000	919,115
Maine Finance Authority Solid Waste Disposal Rev. (Casella Waste Systems, Inc.), 6.25%, 2025 (b)	450,000	459,000
Massachusetts Development Finance Agency, Resource Recovery Rev. (Convanta Energy), A , 4.875%, 2027	260,000	262,642
Massachusetts Development Finance Agency, Resource Recovery Rev. (Convanta Energy), A , 5.25%, 2042	870,000	886,513
Niagara County, NY, Industrial Development Agnecy, Solid Waste Disposal Rev. (Convanta Energy), A , 5.25%, 2042	890,000	906,892
		$ 3,744,797
Industrial Revenue - Other - 2.2%		
Annawan, IL, Tax Increment Rev. (Patriot Renewable Fuels LLC), 5.625%, 2018	$ 360,000	$ 335,948
California Statewide Communities Development Authority Facilities (Microgy Holdings Project), 9%, 2038 (a)(d)	63,113	631
Gulf Coast, TX, Industrial Development Authority Rev. (CITGO Petroleum Corp.), 4.875%, 2025	345,000	352,135
Gulf Coast, TX, Industrial Development Authority Rev. (CITGO Petroleum Corp.), 8%, 2028	500,000	500,570
Houston, TX, Industrial Development Corp. (United Parcel Service, Inc.), 6%, 2023	590,000	591,634
New Jersey Economic Development Authority Rev. (GMT Realty LLC), B , 6.875%, 2037	1,500,000	1,522,815
St. Charles Parish, LA, Gulf Zone Opportunity Zone Rev. (Valero Energy Corp.), 4%, 2040 (b)	465,000	515,304
		$ 3,819,037

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Portfolio of Investments   continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Industrial Revenue - Paper - 1.6%		
Courtland, AL, Industrial Development Board Rev. (International Paper Co.), B , 6.25%, 2025	$ 1,000,000	$ 1,020,630
Escambia County, FL, Environmental Improvement Rev. (International Paper Co.), A , 5%, 2026	1,270,000	1,270,953
Escambia County, FL, Environmental Improvement Rev. (International Paper Co.), A , 4.75%, 2030	370,000	370,259
Phenix City, AL, Industrial Development Board Environmental Improvement Rev. (MeadWestvaco Coated Board Project), A , 4.125%, 2035	200,000	201,540
		$ 2,863,382
Miscellaneous Revenue - Entertainment & Tourism - 1.0%		
Agua Caliente Band of Cahuilla Indians, CA, Rev., 5.6%, 2013 (n)	$ 230,000	$ 231,470
Brooklyn, NY, Arena Local Development Corp. (Barclays Center Project), 6%, 2030	155,000	183,918
Brooklyn, NY, Arena Local Development Corp. (Barclays Center Project), 6.25%, 2040	100,000	117,313
Cow Creek Band of Umpqua Tribe of Indians, OR, C , 5.625%, 2026 (n)	800,000	764,056
Seminole Tribe, FL, Special Obligation Rev., A , 5.25%, 2027 (n)	365,000	390,758
		$ 1,687,515
Miscellaneous Revenue - Other - 4.7%		
Austin, TX, Convention Center (Convention Enterprises, Inc.), A , SYNCORA, 5.25%, 2024	$ 395,000	$ 427,876
Austin, TX, Convention Center (Convention Enterprises, Inc.), A , SYNCORA, 5%, 2034	55,000	57,699
Citizens Property Insurance Corp., FL, A-1 , 5%, 2019	135,000	159,982
Citizens Property Insurance Corp., FL, A-1 , 5%, 2020	875,000	1,047,314
Cleveland-Cuyahoga County, OH, Port Authority Rev. (Columbia National Group), 5%, 2020	515,000	517,951
Dallas, TX, Civic Center Convention Complex Rev., ASSD GTY, 5.25%, 2034	1,065,000	1,225,336
District of Columbia Rev. (American Society Hematology), 5%, 2036	65,000	72,703
District of Columbia Rev. (American Society Hematology), 5%, 2042	50,000	55,710
Massachusetts Port Authority Facilities Rev. (Conrac Project), A , 5.125%, 2041	50,000	56,129
Miami-Dade County, FL, Special Obligation, B , 5%, 2035	255,000	292,720
Miami-Dade County, FL, Special Obligation, B , 5%, 2037	635,000	720,909
New York Liberty Development Corp., Liberty Rev. (One Bryant Park LLC), 6.375%, 2049	685,000	813,691
New York Liberty Development Corp., Liberty Rev. (World Trade Center Project), 5%, 2044	695,000	801,557

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Portfolio of Investments continued

Issuer	Shares/Par	Value ($)
Municipal Bonds - continued		
Miscellaneous Revenue - Other - continued		
V Lakes Utility District, MS, Water Systems Rev., 7%, 2037	$ 300,000	$ 299,997
Wisconsin Public Finance Authority, Airport Facilities Rev. (Transportation Infrastructure Properties LLC), B , 5.25%, 2028	1,675,000	1,808,280
		$ 8,357,854
Multi-Family Housing Revenue - 5.3%		
Broward County, FL, Housing Finance Authority Rev. (Chaves Lakes Apartments Ltd.), A , 7.5%, 2040	$ 740,000	$ 740,488
Capital Trust Agency, FL, Housing Rev. (Atlantic Housing Foundation), B , 7%, 2032 (d)(q)	735,000	334,418
Charter Mac Equity Issuer Trust, FHLMC, 6.3%, 2019 (n)	1,000,000	1,183,870
District of Columbia Housing Finance Agency (Henson Ridge), E , FHA, 5.1%, 2037	1,000,000	1,036,050
Durham, NC, Durham Housing Authority Rev. (Magnolia Pointe Apartments), 5.65%, 2038	1,363,806	1,306,389
El Paso County, TX, Housing Finance Corp. (American Housing Foundation), C , 8%, 2032	340,000	340,510
El Paso County, TX, Housing Finance Corp. (American Housing Foundation), D , 10%, 2032	370,000	370,518
MuniMae TE Bond Subsidiary LLC, 9.64%, 2050 (z)	2,000,000	1,900,000
Resolution Trust Corp., Pass-Through Certificates, 1993 , 8.5%, 2016 (z)	546,075	537,152
Texas Department of Housing & Community Affairs (Pebble Brook Apartments), FNMA, 5.5%, 2018	795,000	800,478
Wilmington, DE, Multi-Family Housing Rev. (Electra Arms Senior Associates), 6.25%, 2028	760,000	757,758
		$ 9,307,631
Parking - 0.2%		
Boston, MA, Metropolitan Transit Parking Corp., Systemwide Parking Rev., 5.25%, 2036	$ 370,000	$ 426,462
Port Revenue - 0.3%		
Maryland Economic Development Corp. Rev. (Port America Chesapeake Terminal Project), B , 5.375%, 2025	$ 125,000	$ 142,978
Maryland Economic Development Corp. Rev. (Port America Chesapeake Terminal Project), B , 5.75%, 2035	365,000	413,808
		$ 556,786
Sales & Excise Tax Revenue - 4.1%		
Bolingbrook, IL, Sales Tax Rev., 6.25%, 2024	$ 750,000	$ 484,748
Chicago, IL, Transit Authority Sales Tax Receipts Rev., 5.25%, 2029	215,000	258,688
Chicago, IL, Transit Authority Sales Tax Receipts Rev., 5.25%, 2030	430,000	515,097
Chicago, IL, Transit Authority Sales Tax Receipts Rev., 5.25%, 2031	80,000	95,550

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Portfolio of Investments continued

Issuer		Shares/Par	Value ($)
Municipal Bonds - continued			
Sales & Excise Tax Revenue - continued			
Colorado Regional Transportation District, Private Activity Rev. (Denver Transportation Partners), 6%, 2034	$	795,000	$ 950,812
Colorado Regional Transportation District, Private Activity Rev. (Denver Transportation Partners), 6%, 2041		385,000	456,722
Massachusetts Bay Transportation Authority, Sales Tax Rev., A , 5%, 2024		1,385,000	1,834,197
Massachusetts School Building Authority, Dedicated Sales Tax Rev., AMBAC, 4.75%, 2032		845,000	952,239
Massachusetts School Building Authority, Dedicated Sales Tax Rev., B , 5%, 2032		490,000	600,338
Miami-Dade County, FL, Transit Sales Surtax Rev., 5%, 2037		365,000	427,660
Puerto Rico Sales Tax Financing Corp., Sales Tax Rev., C , 5.25%, 2041		45,000	48,460
Puerto Rico Sales Tax Financing Corp., Sales Tax Rev., Capital Appreciation, A , 0% to 2016, 6.75% to 2032		585,000	612,401

			$	Cambridge, MA 100.0% 1 79,616
Reservoir Place North	Waltham, MA	100.0%	1	73,258
105 Carnegie Center	Princeton, NJ	55.3%	1	69,955
32 Hartwell Avenue	Lexington, MA	100.0%	1	69,154
302 Carnegie Center	Princeton, NJ	100.0%	1	64,926
195 West Street	Waltham, MA	100.0%	1	63,500
100 Hayden Avenue	Lexington, MA	100.0%	1	55,924
181 Spring Street	Lexington, MA	100.0%	1	55,793
211 Carnegie Center	Princeton, NJ	100.0%	1	47,025
92 Hayden Avenue	Lexington, MA	100.0%	1	31,100
201 Carnegie Center	Princeton, NJ	100.0%		6,500
Subtotal for Class A Office Properties		92.7%	117	33,037,587
Retail				
Shops at The Prudential Center	Boston, MA	99.0%	1	510,029
Kingstowne Retail	Alexandria, VA	100.0%	1	88,288
Shaws Supermarket at The Prudential Center	Boston, MA	100.0%	1	57,235
Subtotal for Retail Properties		99.2%	3	655,552
Office/Technical Properties				
Bedford Business Park	Bedford, MA	69.3%	2	379,056
Seven Cambridge Center	Cambridge, MA	100.0%	1	231,028
7601 Boston Boulevard	Springfield, VA	100.0%	1	103,750
7435 Boston Boulevard	Springfield, VA	100.0%	1	103,557
8000 Grainger Court	Springfield, VA	100.0%	1	88,775
7500 Boston Boulevard	Springfield, VA	100.0%	1	79,971
7501 Boston Boulevard	Springfield, VA	100.0%	1	75,756
6605 Springfield Center Drive(1)	Springfield, VA	0.0%	1	68,907
Fourteen Cambridge Center	Cambridge, MA	100.0%	1	67,362
164 Lexington Road	Billerica, MA	0.0%	1	64,140

103 Fourth Avenue(1)	Waltham, MA	58.5%	1	62,476
7450 Boston Boulevard	Springfield, VA	100.0%	1	62,402
7374 Boston Boulevard	Springfield, VA	100.0%	1	57,321
8000 Corporate Court	Springfield, VA	100.0%	1	52,539
7451 Boston Boulevard	Springfield, VA	100.0%	1	47,001
7300 Boston Boulevard	Springfield, VA	100.0%	1	32,000
17 Hartwell Avenue	Lexington, MA	100.0%	1	30,000
7375 Boston Boulevard	Springfield, VA	100.0%	1	26,865
6601 Springfield Center Drive(1)	Springfield, VA	100.0%	1	26,388
Subtotal for Office/Technical Properties		83.4%	20	1,659,294

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Properties	Location	% Leased	Number of Buildings	Net Rentable Square Feet
Hotel Property				
Cambridge Center Marriott	Cambridge, MA	75.1%(2)	1	330,400
Subtotal for Hotel Property		75.1%	1	330,400
Subtotal for In-Service Properties		92.4%	141	35,682,833
Structured Parking		n/a		12,789,161
Properties Under Construction				
Atlantic Wharf (formerly known as Russia Wharf)	Boston, MA	58%(3)(4)	2	860,000
2200 Pennsylvania Avenue	Washington, DC	53%(3)(5)	2	780,000
Weston Corporate Center	Weston, MA	100%(3)	1	356,367
Subtotal for Properties Under Construction		66%	5	1,996,367
Total Portfolio			146	50,468,361

(1) Property held for redevelopment as of December 31, 2009.
(2) Represents the weighted-average room occupancy for the year ended December 31, 2009. Note that this amount is not included in the calculation of the Total Portfolio occupancy rate for In-Service Properties as of December 31, 2009.
(3) Represents percentage leased as of February 19, 2010.
(4) Percentage leased excludes 70,000 square feet of the residential component and includes 24,000 square feet of retail space.
(5) Percentage leased excludes 330,000 square feet of the residential component and includes 22,000 square feet of retail space in the office component.

The following table shows information relating to properties owned through the Value-Added Fund at December 31, 2009:

Property	Location	% Leased	Number of Buildings	Net Rentable Square Feet
Mountain View Research Park	Mountain View, CA	73.7%	16	600,449
One and Two Circle Star Way	San Carlos, CA	45.2%	2	206,945
Mountain View Technology Park	Mountain View, CA	57.6%	7	135,279
300 Billerica Road	Chelmsford, MA	100.0%	1	110,882
Total Value-Added Fund		68.8%	26	1,053,555

Percentage Leased and Average Annualized Revenue per Square Foot for In-Service Properties

The following table sets forth our percentage leased and average annualized revenue per square foot on a historical basis for our In-Service Properties.

	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008	December 31, 2009
Percentage leased	93.8%	94.2%	94.9%	94.5%	92.4%
Average annualized revenue per square foot(1)	$ 43.24	$ 43.73	$ 45.57	$ 51.50	$ 52.84

(1) Annualized revenue is the contractual rental obligations and contractual reimbursements on an annualized basis at December 31, 2005, 2006, 2007, 2008 and 2009.

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Top 20 Tenants by Square Feet

Our 20 largest tenants by square feet as of December 31, 2009 were as follows:

	Tenant	Square Feet	% of In-Service Portfolio
1	U.S. Government	1,823,345(1)	5.17%
2	Lockheed Martin	1,305,094	3.70%
3	Citibank	1,047,687(2)	2.97%
4	Genentech	565,791(3)	1.60%
5	Kirkland & Ellis	557,392(4)	1.58%
6	Procter & Gamble (Gillette)	484,051	1.37%
7	Shearman & Sterling	472,808	1.34%
8	Weil Gotshal Manges	456,744(5)	1.29%
9	O Melveny & Myers	446,039	1.26%
10	Parametric Technology	380,987	1.08%
11	Finnegan Henderson Farabow	356,195(6)	1.01%
12	Accenture	354,854	1.01%
13	Ann Taylor	338,942	0.96%
14	Northrop Grumman	327,677	0.93%
15	Biogen Idec MA	321,564	0.91%
16	Washington Group International	299,079	0.85%
17	Aramis (Estee Lauder)	295,610(7)	0.84%
18	Bingham McCutchen	291,415	0.83%
19	Akin Gump Strauss Hauer & Feld	290,132	0.82%
20	Macquarie Holdings	286,288(8)	0.81%
	Total % of Portfolio Square Feet		30.33%
	Total % of Portfolio Revenue		31.48%

(1) Includes 116,353, 68,276 and 56,351 square feet of space in properties in which we have a 60%, 51% and 50% interest, respectively.
(2) Includes 10,080 and 2,761 square feet of space in properties in which we have a 60% and 51% interest, respectively.
(3) Excludes 55,860 square feet of expansion space at 601 Gateway executed in the third quarter of 2009.
(4) Includes 256,904 square feet of space in a property in which we have a 51% interest.
(5) Includes 456,744 square feet of space in a property in which we have a 60% interest.
(6) Includes 258,990 square feet of space in a property in which we have a 25% interest.
(7) Includes 295,610 square feet of space in a property in which we have a 60% interest.
(8) Includes 261,387 square feet of space in a property in which we have a 60% interest.

Tenant Diversification (Gross Rent)*

Our tenant diversification as of December 31, 2009 was as follows:

Sector

	Percentage of of Gross Rent
Legal Services	26%
Financial Services	24%
Manufacturing / Consumer Products	10%
Technical and Scientific Services	10%
Other Professional Services	8%
Other	6%
Retail	6%
Government / Public Administration	4%
Media / Telecommunications	3%
Real Estate and Insurance	3%

* The classification of our tenants is based on the U.S. Government s North American Industry Classification System (NAICS), which has replaced the Standard Industrial Classification (SIC) system.

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Lease Expirations(1)

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized Contractual Rent Under Expiring Leases Without Future Step-Ups(2)	Current Annualized Contractual Rent Under Expiring Leases Without Future Step-Ups p.s.f.(2)	Current Annualized Contractual Rent Under Expiring Leases With Future Step-ups(3)	Current Annualized Contractual Rent Under Expiring Leases With Future Step-ups p.s.f.(3)	Percentage of Total Square Feet
2010	3,206,855	$ 128,268,790	$ 40.00	$ 130,810,194	$ 40.79	9.1%
2011	2,864,389	137,216,759	47.90	138,388,278	48.31	8.1%
2012	3,178,379	151,937,120	47.80	155,045,606	48.78	9.0%
2013	1,274,393	64,085,194	50.29	66,245,555	51.98	3.6%
2014	3,314,744	136,308,062	41.12	146,805,681	44.29	9.4%
2015	2,354,859	113,885,427	48.36	135,674,860	57.61	6.7%
2016	2,717,719	152,000,893	55.93	161,514,343	59.43	7.7%
2017	3,009,517	207,276,515	68.87	223,805,530	74.37	8.5%
2018	748,068	50,118,488	67.00	55,747,737	74.52	2.1%
2019	2,905,638	163,914,655	56.41	187,405,744	64.50	8.2%
Thereafter	6,729,429	405,013,596	60.19	499,298,064	74.20	19.0%

(1) Includes 100% of unconsolidated joint venture properties, except for properties owned by the Value-Added Fund.

(2) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2009 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

(3) Represents the monthly contractual base rent under expiring leases with future contractual increases upon expiration and recoveries from tenants under existing leases as of December 31, 2009 multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

Item 3. ***Legal Proceedings***

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

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our stockholders during the fourth quarter of the year ended December 31, 2009.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

(a) Our common stock is listed on the New York Stock Exchange under the symbol BXP. The high and low sales prices and dividends for the periods indicated in the table below were:

Quarter Ended	High	Low	Dividends per common share
December 31, 2009	$ 71.73	$ 57.19	$ .50
September 30, 2009	72.23	42.62	.50
June 30, 2009	53.19	33.79	.50
March 31, 2009	56.78	29.30	.68
December 31, 2008	92.41	37.52	.68
September 30, 2008	105.80	82.00	.68
June 30, 2008	106.53	89.04	.68
March 31, 2008	98.72	79.88	.68

At February 19, 2010, we had approximately 1,620 stockholders of record.

In order to maintain our qualification as a REIT, we must make annual distributions to our stockholders of at least 90% of our taxable income (not including net capital gains). We have adopted a policy of paying regular quarterly distributions on our common stock, and we have adopted a policy of paying regular quarterly distributions on the common units of BPLP. Cash distributions have been paid on our common stock and BPLP s common units since our initial public offering. Distributions are declared at the discretion of the Board of Directors and depend on actual and anticipated cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors the Board of Directors may consider relevant.

During the three months ended December 31, 2009, we issued an aggregate of 16,000 common shares in connection with the redemption of 16,000 common units of limited partnership held by certain limited partners of BPLP. These shares were issued in reliance on an exemption from registration under Section 4(2). We relied on the exception under Section 4(2) based upon factual representations received from the limited partners who received the commons shares.

Stock Performance Graph

The following graph provides a comparison of cumulative total stockholder return for the period from December 31, 2004 through December 31, 2009, among Boston Properties, the Standard & Poor s (S&P) 500 Index, the National Association of Real Estate Investment Trusts, Inc. (NAREIT) Equity REIT Total Return Index (the Equity REIT Index) and the NAREIT Office REIT Index (the Office REIT Index). The Equity REIT Index includes all tax-qualified equity REITs listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ Stock Market. Equity REITs are defined as those with 75% or more of their gross invested book value of assets invested directly or indirectly in the equity ownership of real estate. The Office REIT Index includes all office REITs included in the Equity REIT Index. Data for Boston Properties, the S&P 500 Index, the Equity REIT Index and the Office REIT Index was provided to us by NAREIT. Upon written request, Boston Properties will provide any stockholder with a list of the REITs included in the Equity REIT Index and the Office REIT Index. The stock

performance graph assumes an investment of $100 in each of Boston Properties and the three indices, and the reinvestment of any dividends. The historical information set forth

below is not necessarily indicative of future performance. The data shown is based on the share prices or index values, as applicable, at the end of each month shown.

	As of the year ended December 31,					
	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Boston Properties	$ 100.00	$ 123.53	$ 200.99	$ 180.15	$ 111.80	$ 142.57
S&P 500	$ 100.00	$ 104.91	$ 121.48	$ 128.15	$ 80.74	$ 102.11
Equity REIT Index	$ 100.00	$ 112.17	$ 151.49	$ 127.72	$ 79.54	$ 101.80
Office REIT Index	$ 100.00	$ 113.11	$ 164.25	$ 133.11	$ 78.45	$ 106.33

(b) None.

(c) Issuer Purchases of Equity Securities. None.

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Item 6. ***Selected Financial Data***

The following table sets forth our selected financial and operating data on a historical basis, which has been revised for the adoption on January 1, 2009 of (1) Accounting Standards Codification (ASC) 470-20 Debt with Conversion and Other Options (ASC 470-20) (formerly known as FASB Staff Position (FSP) No. APB 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1)) (Refer to Note 8 of the Consolidated Financial Statements), (2) the guidance included in ASC 810 Consolidation (ASC 810) (formerly known as SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160)) and ASC 480-10-S99 Distinguishing Liabilities from Equity (ASC 480-10-S99) (formerly known as EITF Topic No. D-98 Classification and Measurement of Redeemable Securities (Amended)) (Refer to Note 11 of the Consolidated Financial Statements), (3) the guidance included in ASC 260-10 Earnings Per Share (ASC 260-10) (formerly known as FSP EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-06-1)) (Refer to Note 15 of the Consolidated Financial Statements), and which has been revised for the reclassifications related to the disposition of qualifying properties during 2007, 2006 and 2005 which have been reclassified as discontinued operations, for the periods presented, in accordance with the guidance in ASC 360 Property, Plant and Equipment (ASC 360) (formerly known as SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets (SFAS No. 144)) (Refer to Note 19 of the Consolidated Financial Statements). The following data should be read in conjunction with our financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K.

Our historical operating results may not be comparable to our future operating results.

	For the year ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
	(in thousands, except per share data)				
Statement of Operations Information:					
Total revenue	$ 1,522,249	$ 1,488,400	$ 1,482,289	$ 1,417,627	$ 1,382,866
Expenses:					
Rental operating	501,799	488,030	455,840	437,705	434,353
Hotel operating	23,966	27,510	27,765	24,966	22,776
General and administrative	75,447	72,365	69,882	59,375	55,471
Interest	322,833	295,322	302,980	302,221	308,091
Depreciation and amortization	321,681	304,147	286,030	270,562	260,979
Loss from suspension of development	27,766				
Net derivative losses		17,021			
Losses (gains) from investments in securities	(2,434)	4,604			
Losses from early extinguishments of debt	510		3,417	32,143	12,896
Income before income (loss) from unconsolidated joint ventures, gains on sales of real estate and other assets, discontinued operations, cumulative effect of a change in accounting principle and net income attributable to noncontrolling interests	250,681	279,401	336,375	290,655	288,300
Income (loss) from unconsolidated joint ventures	12,058	(182,018)	20,428	24,507	4,829
Gains on sales of real estate and other assets	11,760	33,340	929,785	719,826	182,542
Income from continuing operations	274,499	130,723	1,286,588	1,034,988	475,671
Discontinued operations			266,793	19,081	75,385
Cumulative effect of a change in accounting principle					(5,043)
Net income	274,499	130,723	1,553,381	1,054,069	546,013
Net income attributable to noncontrolling interests	(43,485)	(25,453)	(243,275)	(183,778)	(107,721)
Net income attributable to Boston Properties, Inc.	$ 231,014	$ 105,270	$ 1,310,106	$ 870,291	$ 438,292
Basic earnings per common share attributable to Boston Properties, Inc.:					
Income from continuing operations	$ 1.76	$ 0.88	$ 9.07	$ 7.45	$ 3.41
Discontinued operations			1.91	0.14	0.57
Cumulative effect of a change in accounting principle					(0.04)

Net income	$	1.76	$	0.88	$	10.98	$	7.59	$	3.94
Weighted average number of common shares outstanding		131,050		119,980		118,839		114,721		111,274
Diluted earnings per common share attributable to Boston Properties, Inc.:										
Income from continuing operations	$	1.76	$	0.87	$	8.92	$	7.29	$	3.35
Discontinued operations						1.88		0.14		0.55
Cumulative effect of a change in accounting principle										(0.04)
Net income	$	1.76	$	0.87	$	10.80	$	7.43	$	3.86
Weighted average number of common and common equivalent shares outstanding		131,512		121,299		120,780		117,077		113,559

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	December 31,				
	2009	2008	2007	2006	2005
	(in thousands)				
Balance Sheet information:					
Real estate, gross	$ 11,099,558	$ 10,625,207	$ 10,252,355	$ 9,552,642	$ 9,151,175
Real estate, net	9,065,881	8,856,422	8,720,648	8,160,587	7,886,102
Cash and cash equivalents	1,448,933	241,510	1,506,921	725,788	261,496
Total assets	12,348,703	10,917,476	11,195,097	9,695,206	8,902,368
Total indebtedness	6,719,771	6,092,884	5,378,360	4,548,550	4,826,254
Noncontrolling interest redeemable preferred units of the Operating Partnership	55,652	55,652	55,652	85,962	185,067
Stockholders equity attributable to Boston Properties, Inc.	4,446,002	3,688,993	3,767,756	3,267,717	2,917,346
Noncontrolling interests	623,057	570,112	615,575	545,626	554,201

	For the year ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands, except per share and percentage data)				
Other Information:					
Funds from Operations attributable to Boston Properties, Inc.(1)	$ 606,272	$ 403,788	$ 545,650	$ 497,782	$ 479,726
Funds from Operations attributable to Boston Properties, Inc., as adjusted(1)	606,272	403,788	547,933	524,321	488,972
Dividends declared per share	2.18	2.72	8.70	8.12	5.19
Cash flows provided by operating activities	617,376	565,311	631,654	528,163	472,249
Cash flows provided by (used in) investing activities	(446,601)	(1,320,079)	574,655	229,572	356,605
Cash flows provided by (used in) financing activities	1,036,648	(510,643)	(425,176)	(293,443)	(806,702)
Total square feet at end of year (including development projects)	50,468	49,761	43,814	43,389	42,013
In-service percentage leased at end of year	92.4%	94.5%	94.9%	94.2%	93.8%

(1) Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of NAREIT, we calculate Funds from Operations, or FFO, by adjusting net income (loss) attributable to Boston Properties, Inc. (computed in accordance with GAAP, including non-recurring items) for gains (or losses) from sales of properties, real estate related depreciation and amortization, and after adjustment for unconsolidated partnerships, joint ventures and preferred distributions. FFO is a non-GAAP financial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. Amount represents our share, which was 86.57%, 85.49%, 85.32%, 84.40% and 83.74% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively, after allocation to the noncontrolling interests.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO, as adjusted, which excludes the effects of the losses from early extinguishments of debt associated with the sales of real estate. Losses from early extinguishments of debt result when the sale of real estate encumbered by debt requires us to pay the extinguishment costs prior to the debt s stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, we view the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because we extinguished the debt in connection with the consummation of the sale transactions and we had no intent to extinguish the debt absent such transactions. We believe that adjusting FFO to exclude these losses more appropriately reflects the results of our operations exclusive of the impact of our sale transactions.

Although our FFO, as adjusted, clearly differs from NAREIT s definition of FFO, and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance because we believe that by excluding the effects of the losses from early extinguishments of debt associated with the sales of real estate, management and investors are presented with an indicator of our operating performance that more closely achieves the objectives of the real estate industry in presenting FFO.

Neither FFO, nor FFO as adjusted, should be considered as an alternative to net income attributable to Boston Properties, Inc. (determined in accordance with GAAP) as an indication of our performance. Neither FFO nor FFO, as adjusted, represent cash generated from operating activities determined in accordance with GAAP and neither of these measures is a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our

performance, FFO and FFO, as adjusted, should be compared with our reported net income attributable to Boston Properties, Inc. and considered in addition to cash flows in accordance with GAAP, as presented in our Consolidated Financial Statements.

A reconciliation of FFO and FFO, as adjusted, to net income attributable to Boston Properties, Inc. computed in accordance with GAAP is provided under the heading of Management s Discussion and Analysis of Financial Condition and Results of Operations Funds from Operations.

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Item 7. ***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.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business-Business and Growth Strategies, Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management s beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, estimate, expect, intend, may, might, plan, project, result should, expressions which do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those anticipated, estimated or projected by the forward-looking statements. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- the impact of the continued global economic slowdown (including the related high unemployment and constrained credit), which is having and may continue to have a negative effect on the following, among other things:
  - the fundamentals of our business, including overall market occupancy and rental rates;
  - the financial condition of our tenants, many of which are financial, legal and other professional firms, our lenders, counterparties to our derivative financial instruments and institutions that hold our cash balances and short-term investments, which may expose us to increased risks of default by these parties;
  - our ability to obtain debt financing on attractive terms or at all, which may adversely impact our ability to pursue acquisition and development opportunities and refinance existing debt and our future interest expense; and
  - the value of our real estate assets, which may limit our ability dispose of assets at attractive prices or obtain or maintain debt financing secured by our properties or on an unsecured basis;
- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants financial condition, and competition from other developers, owners and operators of real estate);

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

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

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

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

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

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

risks associated with actual or threatened terrorist attacks;

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

potential liability for uninsured losses and environmental contamination;

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

possible adverse changes in tax and environmental laws;

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

risks associated with possible state and local tax audits; and

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

The risks set forth above are not exhaustive. Other sections of this report, including Part I, Item 1A- Risk Factors, include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements. We expressly disclaim any responsibility to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events, or otherwise, and you should not rely upon these forward-looking statements after the date of this report.

Overview

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

The impact of the current state of the economy, including the high rate of unemployment, continues to adversely impact the fundamentals of our business, including overall market occupancy and rental rates. Our core strategy has always been to operate in supply constrained markets with high barriers to entry and to focus on executing long-term leases with financially strong tenants. Historically, this combination has tended to reduce our exposure in down cycles and we believe this is proving to be true once again.

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Although leasing velocity has generally improved in our markets since the beginning of 2009, particularly in New York City, the lack of meaningful job growth, the overall availability of space and the absence of meaningful new tenant expansion have negatively impacted lease economics. Rental rates have declined and transaction costs (including tenant improvement allowances and free rent periods) have increased. While it is not clear how long these trends will persist, our experiences in past recessions suggest that we will not see unemployment peak and job growth begin until the later stages of a broad economic recovery. We continue to believe that general office market conditions are dependent on the impact of a recovery in the labor markets. Because the individual labor and industry markets may recover at different paces, we may see varying degrees of strength or softness in our core markets. Throughout 2009 we have seen an increase in transaction velocity across all of our markets. Although overall supply has increased, demand has decreased and there has been negative absorption of available space. We expect tenants in our markets to continue to take advantage of the ability to upgrade to high-quality space, such as ours. Overall, we expect our occupancy to remain relatively flat during 2010.

Given the volatility in the capital markets over the past 18 months and the potential to acquire assets at attractive prices, we took steps to improve our liquidity and enhance our capital position. Since the beginning of 2009 we raised a total of $1.8 billion from the following: (1) we raised $265 million in two secured financings, (2) in June 2009, we completed a public offering of 17,250,000 shares of common stock, which raised approximately $842 million of net proceeds, and (3) in October 2009, we completed a public offering of 5.875% senior notes due 2019 that raised aggregate net proceeds of approximately $694 million. In 2010, we expect to repay approximately $78 million of indebtedness and to refinance or extend approximately $632 million of $646 million of other debt that matures, which amount includes our share of unconsolidated joint venture debt. As of February 19, 2010, we believe our combination of available cash of approximately $1.4 billion and borrowing capacity on our Unsecured Line of Credit of approximately $1.0 billion is sufficient to meet all of our existing development funding obligations, repay near term financings and provide significant capital for future investments. We believe the quality of our assets and our strong balance sheet are attractive to lenders and equity investors current investment selectivity and should enable us to continue to access multiple sources of capital. In addition, we believe deteriorated market fundamentals, overleveraged real estate assets and existing property owners with insufficient capital resources will eventually provide opportunities for well capitalized companies and seasoned operators, such as us, to acquire high-quality assets at attractive levels. Opportunities to acquire properties may come through outright property acquisitions, joint venture arrangements or through the purchase of first mortgage or mezzanine debt. While transactional activity in the office sector has yet to accelerate, our management team is actively seeking opportunities. We will maintain our disciplined investment strategy, which focuses on high-quality assets in supply-constrained markets, emphasizing long-term value creation.

We believe the successful lease-up and completion of our development pipeline will enhance our long-term return on equity and earnings growth as these developments are placed in-service in 2010, 2011 and 2012. However, we do not anticipate undertaking new development projects in the foreseeable future without significant pre-leasing commitments from creditworthy tenants.

For descriptions of significant transactions that we entered into during 2009, see *Item 1. Business Transactions During 2009*.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is

possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above- and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with guidance included in Accounting Standards Codification (ASC) 805 Business Combinations (ASC 805) (formerly known as Statement of Financial Accounting Standards (SFAS) No. 141(R) (SFAS 141(R))), and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings as if vacant. We assess and consider fair value based on estimated cash flow projections that utilize discount and/or capitalization rates that we deem appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenant s credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

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

Management reviews its long-lived assets used in operations for impairment following the end of each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such criteria are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used as defined by guidance included in ASC 360 Property, Plant and Equipment (ASC 360) (formerly known as SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144)) are considered on an undiscounted basis to determine whether an asset has been impaired, our established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value.

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ASC 360 (formerly known as SFAS No. 144), requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets and the asset is written down to the lower of carrying value or fair market value.

Real estate is stated at depreciated cost. A variety of costs are incurred in the acquisition, development and leasing of properties. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Effective January 1, 2009, under the provisions of ASC 805 (formerly known as SFAS No. 141(R)), we were required to expense costs associated with the acquisition of real property such as legal, due diligence and other closing related costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development. After the determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by guidance in ASC 835-20 Capitalization of Interest and ASC 970 Real Estate General (formerly known as SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Projects). The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We begin the capitalization of costs during the pre-construction period which we define as activities that are necessary to the development of the property. We consider a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed, (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction, or (3) if activities necessary for the development of the property have been suspended.

Investments in Unconsolidated Joint Ventures

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

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

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

To the extent that we contribute assets to a joint venture, our investment in the joint venture is recorded at our cost basis in the assets that were contributed to the joint venture. To the extent that our cost basis is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related asset and included in our share of equity in net income of the joint venture. In accordance with the provisions of ASC 970-323 Investments Equity Method and Joint Ventures (ASC 970-323) (formerly Statement of Position 78-9 Accounting for Investments in Real Estate Ventures (SOP 78-9)), we will recognize gains on the contribution of real estate to joint ventures, relating solely to the outside partner s interest, to the extent the economic substance of the transaction is a sale.

The combined summarized financial information of the unconsolidated joint ventures is disclosed in Note 5 of the Consolidated Financial Statements.

Revenue Recognition

Contractual rental revenue is reported on a straight-line basis over the terms of our respective leases. In accordance with guidance included in ASC 805 (formerly known as SFAS No. 141(R)), we recognize rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases. Accrued rental income as reported on the Consolidated Balance Sheets represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements.

For the year ended December 31, 2009, we recorded approximately $4.2 million of rental revenue representing the adjustments of rents from above- and below-market leases in accordance with ASC 805 (formerly known as SFAS No. 141(R)). For the year ended December 31, 2009, the impact of the straight-line rent adjustment increased rental revenue by approximately $42.2 million. These amounts exclude the adjustment of rents from above- and below-market leases and straight-line income from unconsolidated joint ventures, which are disclosed in Note 5 of the Consolidated Financial Statements.

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

- review relevant financial information, including:
  - financial ratios;

net worth;

revenue;

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cash flows;

leverage: and

liquidity;

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

assess the strength/growth of the tenant s industry.

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

(1) low risk tenants;

(2) the tenant s credit is such that we require collateral, in which case we:

require a security deposit; and/or

reduce upfront tenant improvement investments; or

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

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

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

payment history;

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

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

tenant financial performance;

economic conditions in a specific geographic region; and

industry specific credit considerations.

If our estimates of collectability differ from the cash received, then the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases, including unconsolidated joint ventures, was approximately 7.0 years as of December 31, 2009. The credit risk is mitigated by the high quality of our existing tenant base, reviews of prospective tenants risk profiles prior to lease execution and consistent monitoring of our portfolio to identify potential problem tenants.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with guidance in ASC 605-45 Principal Agent Considerations (ASC 605-45) (formerly known as Emerging Issues Task Force, or EITF, Issue 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent, or (Issue 99-19)). ASC 605-45 requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have credit risk. We also receive reimbursement of payroll and payroll related costs from third parties which we reflect on a net basis in accordance with guidance in ASC 605-45.

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

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

Gains on sales of real estate are recognized pursuant to the provisions included in ASC 360-20 Real Estate Sales (ASC 360-20) (formerly known as SFAS No. 66, Accounting for Sales of Real Estate). The specific timing of the sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Depreciation and Amortization

We compute depreciation and amortization on our properties using the straight-line method based on estimated useful asset lives. In accordance with guidance in ASC 805 (formerly known as SFAS No. 141(R)), we allocate the acquisition cost of real estate to land, building, tenant improvements, acquired above- and below-market leases, origination costs and acquired in-place leases based on an assessment of their fair value and depreciate or amortize these assets over their useful lives. The amortization of acquired above- and below-market leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

Fair Value of Financial Instruments

For purposes of disclosure, we calculate the fair value of our mortgage notes payable and unsecured senior notes. We discount the spread between the future contractual interest payments and hypothetical future interest payments on our mortgage debt and unsecured notes based on a current market rate. In determining the current market rate, we add our estimate of a market spread to the quoted yields on federal government treasury securities with similar maturity dates to our own debt. Because our valuations of our financial instruments are based on these types of estimates, the actual fair value of our financial instruments may differ materially if our estimates do not prove to be accurate.

Derivative Instruments and Hedging Activities

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

Results of Operations

The following discussion is based on our Consolidated Financial Statements for the years ended December 31, 2009, 2008 and 2007.

At December 31, 2009, 2008 and 2007, we owned or had interests in a portfolio of 146, 147 and 139 properties, respectively (the Total Property Portfolio). As a result of changes within our Total Property Portfolio, the financial data presented below shows significant changes in revenue and expenses from

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period-to-period. Accordingly, we do not believe that our period-to-period financial data with respect to the Total Property Portfolio are necessarily meaningful. Therefore, the comparisons of operating results for the years ended 2009, 2008 and 2007 show separately the changes attributable to the properties that were owned by us throughout each period compared (the Same Property Portfolio) and the changes attributable to the properties included in Properties Acquired, Sold, Repositioned and Placed-in Service.

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

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

Our management also uses NOI to evaluate regional property level performance and to make decisions about resource allocations. Further, we believe NOI is useful to investors as a performance measure because, when compared across periods, NOI reflects the impact on operations from trends in occupancy rates, rental rates, operating costs and acquisition and development activity on an unleveraged basis, providing perspective not immediately apparent from net income attributable to Boston Properties, Inc. NOI excludes certain components from net income attributable to Boston Properties, Inc. in order to provide results that are more closely related to a property s results of operations. For example, interest expense is not necessarily linked to the operating performance of a real estate asset and is often incurred at the corporate level as opposed to the property level. In addition, depreciation and amortization, because of historical cost accounting and useful life estimates, may distort operating performance at the property level. NOI presented by us may not be comparable to NOI reported by other REITs that define NOI differently. We believe that in order to facilitate a clear understanding of our operating results, NOI should be examined in conjunction with net income attributable to Boston Properties, Inc. as presented in our Consolidated Financial Statements. NOI should not be considered as an alternative to net income attributable to Boston Properties, Inc. as an indication of our performance or to cash flows as a measure of liquidity or ability to make distributions. For a reconciliation of NOI to net income attributable to Boston Properties Inc., see Note 14 to the Consolidated Financial Statements.

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 126 properties, including properties acquired or placed in-service on or prior to January 1, 2008 and owned through December 31, 2009, totaling approximately 30.1 million net rentable square feet of space (excluding square feet of structured parking). The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2008 or disposed of on or prior to December 31, 2009. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the year ended December 31, 2009 and 2008 with respect to the properties which were acquired, placed in-service, repositioned or sold.

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	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
rs in thousands)	2009	2008	Increase/ (Decrease)	% Change	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	Increase/ (Decrease)	% Chang
l Revenue:																
l Revenue	$ 1,358,000	$ 1,344,408	$ 13,592	1.01%	$	$ 90	$ 7,244	$ 1,828	$ 73,273	$ 43,283	$	$	$ 1,438,517	$ 1,389,609	$ 48,908	3.5
nation Income	14,410	12,443	1,967	15.81%									14,410	12,443	1,967	15.8
Rental Revenue	1,372,410	1,356,851	15,559	1.15%		90	7,244	1,828	73,273	43,283			1,452,927	1,402,052	50,875	3.6
Estate Operating nses	479,983	477,172	2,811	0.59%		46	1,274	274	20,542	10,538			501,799	488,030	13,769	2.8
perating Income, ding hotel	892,427	879,679	12,748	1.45%		44	5,970	1,554	52,731	32,745			951,128	914,022	37,106	4.0
Net Operating ne(1)	6,419	9,362	(2,943)	(31.44)%									6,419	9,362	(2,943)	(31.4
olidated Net ating Income(1)	898,846	889,041	9,805	1.10%		44	5,970	1,554	52,731	32,745			957,547	923,384	34,163	3.7
Revenue:																
opment and gement services													34,878	30,518	4,360	14.2
st and other													4,059	18,958	(14,899)	(78.5
Other Revenue													38,937	49,476	(10,539)	(21.3
Expenses:																
ral and nistrative expense													75,447	72,365	3,082	4.2
st expense													322,833	295,322	27,511	9.3
eciation and ization	299,175	293,604	5,571	1.90%			4,813	1,375	17,693	9,168			321,681	304,147	17,534	5.7
from suspension velopment													27,766		27,766	100.0
erivative losses														17,021	(17,021)	(100.0
s (gains) from tments in ties													(2,434)	4,604	(7,038)	(152.8
s from early guishments of													510		510	100.0
Other Expenses	299,175	293,604	5,571	1.90%			4,813	1,375	17,693	9,168			745,803	693,459	52,344	7.5
ne before income from nsolidated joint res, gains on of real estate and assets and net ne attributable to ontrolling sts	$ 599,671	$ 595,437	$ 4,234	0.71%	$	$ 44	$ 1,157	$ 179	$ 35,038	$ 23,577	$	$	$ 250,681	$ 279,401	$ (28,720)	(10.2
ne (loss) from nsolidated joint res	$ (1,524)	$ (33,794)	$ 32,270	95.49%	$	$	$ 15,007	$ (148,224)	$ (1,425)	$	$	$	12,058	(182,018)	194,076	106.6
on sales of real and other assets	$	$	$	$	$	$	$	$	$	$	$	$	11,760	33,340	(21,580)	(64.7

ncome	274,499	130,723	143,776	109.9
ncome utable to ontrolling sts:				
ontrolling sts in property erships	(2,778)	(1,997)	(781)	(39.1
ontrolling st common units Operating ership	(35,534)	(14,392)	(21,142)	(146.9
ontrolling interest ns on sales of state and other common units of perating ership	(1,579)	(4,838)	3,259	67.3
ontrolling st redeemable red units of the ting Partnership	(3,594)	(4,226)	632	14.9
ncome utable to Boston rties, Inc.	$ 231,014	$ 105,270	$ 125,744	119.4

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 52. Hotel Net Operating Income for the years ended December 31, 2009 and 2008 is comprised of Hotel Revenue of $30,385 and $36,872, respectively, less Hotel Expenses of $23,966 and $27,510, respectively, per the Consolidated Statements of Operations.

Rental Revenue

The increase of approximately $48.9 million in Total Property Portfolio rental revenue is comprised of increases and decreases within four categories that comprise our Total Property Portfolio. Rental revenue from the Same Property Portfolio increased approximately $13.6 million, Properties Sold decreased approximately $0.1 million, Properties Acquired increased approximately $5.4 million and Properties Placed In-Service increased approximately $30.0 million for the year ended December 31, 2009 compared to the year ended December 31, 2008.

Rental revenue from the Same Property Portfolio increased approximately $13.6 million for the year ended December 31, 2009 compared to 2008. Included in the Same Property Portfolio rental revenue is an overall increase in contractual rental revenue of approximately $2.0 million and an increase of approximately $24.3 million in straight-line rents. The increase in straight-line rent is primarily the result of us establishing in the third quarter of 2008 a $21.0 million reserve, which was reflected as a direct reduction of straight-line rent, for the full amount of the accrued straight-line rent balances associated with our leases in New York City with Lehman Brothers, Inc. and the law firm of Heller Ehrman LLP. The increases in contractual rental revenue and straight-line rent were offset by an approximately $10.4 million decrease in recoveries from tenants in 2009. Generally, under each of our leases, we are entitled to recover from the tenant increases in specific operating expenses associated with the leased property above the amount incurred for these operating expenses in the first year of the lease. The decrease in recoveries from tenants is primarily due to the terminations by tenants in New York City, which resulted in lesser tenant recoveries due to decreased occupancy and, to the extent space was re-leased, leases are in their first year during which, generally, no tenant recoveries are earned. We also had an approximately $2.3 million decrease in parking and other income. We expect straight-line rents for the Total Property Portfolio to contribute an aggregate of approximately $60 million to $70 million in fiscal 2010 compared to approximately $42.2 million in 2009.

Revenue from Properties Sold decreased by approximately $0.1 million due to the transfer of Mountain View Research Park and Mountain View Technology Park to the Value-Added Fund on January 7, 2008. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for the properties and our continued ownership interest through the Value-Added Fund.

The acquisition of 635 Massachusetts Avenue on September 26, 2008 increased rental revenue from Properties Acquired by approximately $5.4 million for the year ended December 31, 2009 compared to the year ended December 31, 2008.

The increase in rental revenue from Properties Placed In-Service relates to fully placing in-service our 505 9th Street development project in the first quarter of 2008, our 77 CityPoint and South of Market development projects during the fourth quarter of 2008, our One Preserve Parkway and Wisconsin Place Office development projects during the second quarter of 2009, our Democracy Tower development project during the third quarter of 2009 and our 701 Carnegie Center development project during the fourth quarter of 2009. The One Preserve Parkway development project had been partially placed in-service during the second quarter of 2008. Rental revenue from Properties Placed In-Service increased approximately $30.0 million, as detailed below:

		Rental Revenue for the year ended December 31		
Property	**Quarter Placed In-Service**	**2009**	**2008**	**Change**
			(in thousands)	
505 9th Street	First Quarter, 2008	$ 21,974	$ 20,090	$ 1,884
South of Market	Fourth Quarter, 2008	27,280	20,010	7,270
77 CityPoint	Fourth Quarter, 2008	8,961	2,098	6,863
One Preserve Parkway	Second Quarter, 2009	1,516	1,085	431
Wisconsin Place Office	Second Quarter, 2009	7,753		7,753
Democracy Tower	Third Quarter, 2009	4,738		4,738
701 Carnegie Center	Fourth Quarter, 2009	1,051		1,051

Total	$ 73,273	$ 43,283	$ 29,990

Termination Income

We recognized termination income totaling approximately $14.4 million for the year ended December 31, 2009, which was related to multiple tenants across the Total Property Portfolio that terminated their leases. Approximately $7.5 million of termination income for 2009 related to a termination agreement with a tenant at 601 Lexington Avenue. Approximately $3.6 million of the total termination income for 2009 is non-cash and consists of the estimated value of furniture and fixtures that two tenants transferred to us in connection with the terminations of their leases. Termination income totaling approximately $12.4 million for the year ended December 31, 2008 was related to multiple tenants across the Total Property Portfolio that terminated their leases, including $7.5 million of termination income related to a termination agreement with Heller Ehrman, LLP.

Real Estate Operating Expenses

The $13.8 million increase in property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Total Property Portfolio is comprised of increases and decreases within four categories that comprise our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately $2.8 million, Properties Acquired increased approximately $1.0 million, Properties Placed In-Service increased approximately $10.0 million and Properties Sold decreased approximately $46,000.

Operating expenses from the Same Property Portfolio increased approximately $2.8 million for the year ended December 31, 2009 compared to 2008. Included in Same Property Portfolio operating expenses is an increase in real estate taxes of approximately $18.0 million, or 9%, which was predominately due to an increase in real estate taxes in the central business districts in Boston and New York City. This was offset by overall decreases in utilities expense of approximately $7.9 million, or 9%, and other property-related expenses of approximately $7.3 million of which approximately $3.0 million relates to repairs and maintenance.

The acquisition of 635 Massachusetts Avenue on September 26, 2008 increased operating expenses from Properties Acquired by approximately $1.0 million for the year ended December 31, 2009 compared to the year ended December 31, 2008.

Operating expenses from Properties Sold decreased by approximately $46,000 due to the transfer of Mountain View Research Park and Mountain View Technology Park to the Value-Added Fund on January 7, 2008. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for the properties and our continued ownership interest through the Value-Added Fund.

The increase in operating expenses from Properties Placed In-Service relates to fully placing in-service our 505 9th Street development project in the first quarter of 2008, our 77 CityPoint and South of Market development projects during the fourth quarter of 2008, our One Preserve Parkway and Wisconsin Place Office development projects during the second quarter of 2009, our Democracy Tower development project during the third quarter of 2009 and our 701 Carnegie Center development project during the fourth quarter of 2009. The One Preserve Parkway development project had been partially placed in-service during the second quarter of 2008. Operating expenses from Properties Placed In-Service increased approximately $10.0 million, as detailed below:

Property

	Quarter Placed In-Service	Real Estate Operating Expenses for the year ended December 31		
		2009	2008 (in thousands)	Change
505 9th Street	First Quarter, 2008	$ 6,929	$ 5,672	$ 1,257
South of Market	Fourth Quarter, 2008	7,057	3,466	3,591
77 CityPoint	Fourth Quarter, 2008	2,477	883	1,594
One Preserve Parkway	Second Quarter, 2009	1,257	517	740
Wisconsin Place Office	Second Quarter, 2009	1,777		1,777
Democracy Tower	Third Quarter, 2009	751		751
701 Carnegie Center	Fourth Quarter, 2009	294		294
Total		$ 20,542	$ 10,538	$ 10,004

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Hotel Net Operating Income

Net operating income for our hotel property decreased approximately $2.9 million, a 31.4% decrease for the year ended December 31, 2009 as compared to 2008. We expect our hotel net operating income for fiscal 2010 to be between $6.0 million and $6.5 million.

The following reflects our occupancy and rate information for our Cambridge Center Marriott hotel property for the year ended December 31, 2009 and 2008:

	2009	2008	Percentage Change
Occupancy	75.1%	77.7%	(3.3)%
Average daily rate	$ 185.29	$ 217.70	(14.9)%
Revenue per available room, REVPAR	$ 139.19	$ 169.08	(17.7)%

Development and Management Services

Development and management services income increased approximately $4.4 million for the year ended December 31, 2009 compared to 2008. Development fees increased by approximately $4.6 million for the year ended December 31, 2009 compared to 2008 due primarily to development fees of approximately $6.1 million for our 20 F Street and 1111 North Capitol Street third-party development projects. This increase was offset by a decrease in other development fees of approximately $1.5 million, of which approximately $0.5 million is related to the completion and placing in-service of our Annapolis Junction joint venture development project. Management fees decreased by approximately $0.2 million for the year ended December 31, 2009 compared to 2008 due to the net effect of an approximately $1.0 million increase in management fee income offset by a decrease of approximately $1.2 million in service income of which approximately $1.0 million is attributable to a decrease in work orders and over time usage of HVAC in New York City. We expect third-party fee income for fiscal 2010 to be between $24 million and $27 million.

Interest and Other Income

Interest and other income decreased approximately $14.9 million for the year ended December 31, 2009 compared to 2008 primarily as a result of lower overall interest rates. The average cash balances for the year ended December 31, 2009 and December 31, 2008 were approximately $602.6 million and $447.1 million, respectively. However, the average interest rate for the year ended December 31, 2009 compared to December 31, 2008 decreased by approximately 1.70%. We currently have approximately $1.4 billion of cash in interest bearing accounts and therefore expect that our interest income will increase from 2009 unless and until such funds are deployed.

Other Expenses

General and Administrative Expense

General and administrative expenses increased approximately $3.1 million for the year ended December 31, 2009 compared to 2008. The increase was the net result of an approximately $8.5 million increase in payroll expense, offset by a decrease in professional fees and other general and administrative expenses of approximately $1.8 million and $1.3 million, respectively, and a decrease of approximately $2.3 million related to abandoned projects in 2008. Approximately $5.6 million of the payroll expenses increase was related to an increase in the value of our deferred compensation plan and approximately $3.1 million was related to the amortization associated with restricted stock equity awards. We expect our general and administrative expense for fiscal 2010 to be between $81 million and $83 million. The projected increase in our fiscal 2010 general and administrative expense is primarily due to approximately $4.5 million of incremental vesting of non-cash stock compensation and a reduction in capitalized wages.

On January 24, 2008, our compensation committee approved outperformance awards under the 1997 Plan to our officers and employees. These 2008 OPP Awards are part of a broad-based long-term incentive compensation program designed to provide our management team at several levels within the organization with the potential to earn equity awards subject to outperforming and creating shareholder value in a pay-for-performance structure. 2008 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2008 OPP Awards will share in an outperformance pool if our TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 5, 2008 to February 5, 2011, based on the average closing price of a share of our common stock of $92.8240 for the five trading days prior to and including February 5, 2008. The aggregate reward that recipients of all 2008 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of $110 million, although OPP awards for an aggregate of up to approximately $104.8 million have been allocated to date and were granted on February 5, 2008. The balance remains available for future grants. Under guidance included in Accountings Standards Codification 718 Compensation Stock Compensation (formerly known as Statement of Financial Accounting Standards No. 123(R) Share-Based Payment) the 2008 OPP Awards have an aggregate value of approximately $19.7 million, which amount will generally be amortized into earnings over the five-year plan period (although awards for retirement-eligible employees will be amortized over a three-year period). Because the 2008 OPP Units require us to outperform absolute and relative return thresholds, unless such thresholds have been met by the end of the applicable reporting period, we exclude the 2008 OPP Units from the diluted EPS calculation. See Notes 15 and 17 to the Consolidated Financial Statements. To the extent that the 2008 OPP Awards are not earned, and therefore the program is terminated, Boston Properties, Inc. will recognize an accounting charge of approximately $3.4 million during the first quarter of 2011.

Commencing in 2003, we began issuing restricted stock and/or LTIP Units, as opposed to granting stock options and restricted stock, under the 1997 Plan as our primary vehicle for employee equity compensation. An LTIP Unit is generally the economic equivalent of a share of our restricted stock. Employees vest in restricted stock and LTIP Units over a four- or five-year term (for awards granted between 2003 and November 2006, vesting is over a five-year term with annual vesting of 0%, 0%, 25%, 35% and 40%; and for awards granted after November 2006, vesting occurs in equal annual installments over a four-year term). Restricted stock and LTIP Units are valued based on observable market prices for similar instruments. Such value is recognized as an expense ratably over the corresponding employee service period. LTIP Units that were issued in January 2005 and any future LTIP Unit awards will be valued using an option pricing model in accordance with the provisions of guidance included in ASC 715 (formerly known as SFAS No. 123R). To the extent restricted stock or LTIP Units are forfeited prior to vesting, the corresponding previously recognized expense is reversed as an offset to stock-based compensation. Stock-based compensation associated with approximately $19.6 million of restricted stock and LTIP Units granted in February 2009, approximately $20.8 million of restricted stock and LTIP Units granted in February 2008 and approximately $14.4 million of restricted stock and LTIP Units granted in February 2007 will be incurred ratably over the four-year vesting period. Stock-based compensation associated with approximately $9.8 million of restricted stock and LTIP Units granted in April 2006 will be incurred ratably over the five-year vesting period. The foregoing amounts do not include an aggregate of approximately $11.0 million of stock-based compensation granted to Edward H. Linde, our former Chief Executive Officer, in the form of LTIP Units between 2006 and 2009, of which an aggregate of approximately $6.1 million was expensed through December 31, 2009 and an aggregate of approximately $4.9 million will be expensed in the first quarter of fiscal 2010 as a result of his passing on January 10, 2010.

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Interest Expense

Interest expense for the Total Property Portfolio increased approximately $27.5 million for the year ended December 31, 2009 compared to 2008 as detailed below

Component		Change in interest expense for the year ended December 31, 2009 and December 31, 2008 (in thousands)
Decreases to interest expense due to:		
Repayment of mortgages	$	(22,308)
Increase in capitalized interest costs		(2,530)
Reduction in borrowings under our Unsecured Line of Credit		(4,852)
Principal amortization of continuing debt and other (excluding senior notes and exchangeable senior notes)		(3,463)
Total decreases to interest expense	$	(33,153)
Increases to interest expense due to:		
New mortgages / properties placed in-service	$	22,664
Issuance by our Operating Partnership of 3.625% exchangeable senior notes due 2014 on August 19, 2008 (excluding the ASC 470-20 (formerly known as FSP No. APB 14-1) interest expense)		17,736
Issuance by our Operating Partnership of 5.875% senior notes due 2019 on October 9, 2009		9,376
ASC 470-20 interest expense		10,888
Total increases to interest expense	$	60,664
Total change in interest expense	$	27,511

The following properties are included in the repayment of mortgages line item: Reston Corporate Center, Prudential Center, One and Two Embarcadero Center, Bedford Business Park, Reservoir Place, Ten Cambridge Center and 1301 New York Avenue. The following properties are included in the new mortgages/properties placed in-service line item: Four Embarcadero Center, South of Market, Democracy Tower, Wisconsin Office and Reservoir Place. As properties are placed in-service, we cease capitalizing interest and interest is then expensed.

Assuming no material changes in the amount or terms of our existing debt, we would anticipate our net interest expense to be between approximately $355 million to $365 million for fiscal 2010. This is higher than 2009 due to the incremental expenses associated with BPLP s $700 million aggregate principal amount of 5.875% senior notes dues 2019 and a reduction in capitalized interest associated with the cessation of construction at 250 West 55th Street. These items are offset by the additional capitalized interest associated with our projects currently under development. In addition, we expect that the cessation of capitalizing interest as a result of the suspension of construction at 250 West 55th Street will result in approximately $25 million of additional annual interest expense until we restart the development project. The actual amount of our net interest expense for fiscal 2010 will be impacted by, among other things, any additional indebtedness we incur, any pre-payments or repurchases of existing indebtedness, fluctuations in interest rates and any changes in our development activity.

Effective January 1, 2009, we adopted ASC 470-20 (formerly known as FSP No. APB 14-1) that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s

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nonconvertible debt borrowing rate. See Note 8 to the Consolidated Financial Statements. ASC 470-20 requires companies to retrospectively apply the requirements of the pronouncement to all periods presented. As a result of applying ASC 470-20, we reported additional non-cash interest expense of approximately $38.6 million, $27.8 million, $19.4 million and $4.1 million for the years ended December 31, 2009, 2008, 2007 and 2006, respectively.

The incremental interest expense for each reporting period is expected to be as follows:

For the year ending December 31:	**Approximate Amount (in thousands)**
2010	$41,200
2011	43,900
2012	29,800
2013	23,000
2014	2,500

At December 31, 2009, our variable rate debt consisted of construction loans at our South of Market, Democracy Tower, Wisconsin Place Office and Atlantic Wharf (formerly Russia Wharf) construction projects, as well as our borrowings under our Unsecured Line of Credit and our secured financing at Reservoir Place. The following summarizes our outstanding debt as of December 31, 2009 compared with December 31, 2008:

	December 31,	
	2009	**2008**
	(dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate	$ 6,326,350	$ 5,707,392
Variable rate	393,421	385,492
Total	$ 6,719,771	$ 6,092,884
Percent of total debt:		
Fixed rate	94.15%	93.67%
Variable rate	5.85%	6.33%
Total	100.00%	100.00%
GAAP weighted average interest rate at end of period:		
Fixed rate	6.12%	6.15%
Variable rate	1.98%	3.62%
Total	5.87%	5.99%
Coupon/Stated weighted-average interest rate at end of period:		
Fixed rate	5.43%	5.43%
Variable rate	1.75%	3.07%
Total	5.21%	5.28%

Depreciation and Amortization

Depreciation and amortization expense for the Total Property Portfolio increased approximately $17.5 million for the year ended December 31, 2009 compared to 2008. Approximately $5.6 million related to an increase in the Same Property Portfolio that was predominately due to accelerated amortization related to tenant terminations in New York City, approximately $3.4 million of the increase related to Properties Acquired and the remaining increase of approximately $8.5 million was attributed to Properties Placed In-Service.

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Capitalized Costs

Costs directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over their useful lives. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the year ended December 31, 2009 and 2008 were approximately $11.3 million and $12.2 million, respectively. These costs are not included in the general and administrative expense discussed above. Interest capitalized for the year ended December 31, 2009 and 2008 were approximately $48.8 million and $46.3 million, respectively. These costs are not included in the interest expense referenced above. Due to the suspension of construction at 250 West 55th Street late in the fourth quarter of 2009, we expect our 2010 capitalized interest to decrease and we expect a reduction in capitalized wages of approximately $2.5 million in 2010.

Loss from Suspension of Development

On February 6, 2009, we announced that we were suspending construction on our 1,000,000 square foot office project at 250 West 55th Street in New York City. During December 2009, we completed the construction of foundations and steel/deck to grade to facilitate a restart of construction in the future and as a result ceased interest capitalization on the project. During the year ended December 31, 2009, we recognized a loss of 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. On January 19, 2010, we paid $12.8 million related to the termination of such lease. As a result, we will recognize approximately $7.2 million of other income during the first quarter of 2010.

Between April 1, 2009 and December 31, 2009, we recognized approximately $1.1 million of additional costs associated with the suspension of development. In addition, we expect to recognize approximately $700,000 of additional costs during the first quarter of 2010 associated with the suspension of development. These costs have been and similar future costs will be classified as real estate operating expenses and not as loss from suspension of development.

Net Derivative Losses

On September 9, 2008, we executed an interest rate lock agreement with lenders at an all-in fixed rate, inclusive of the credit spread, of 6.10% per annum for an eight-year, $375.0 million loan collateralized by our Four Embarcadero Center property located in San Francisco, California. Our interest rate hedging program contemplated a financing with a ten-year term and, as a result, under guidance included in ASC 815 Derivatives and Hedging, (formerly known as SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities), during the third quarter of 2008 we recognized a net derivative loss of approximately $6.6 million representing the partial ineffectiveness of our interest rate contracts. On November 13, 2008, we closed on the Four Embarcadero Center mortgage. Under our interest rate hedging program, we will reclassify into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheets within Accumulated Other Comprehensive Loss, which amounts represent the effective portion of the applicable interest rate hedging contracts.

Our interest rate hedging program also contemplated obtaining additional financing of at least $150.0 million by the end of 2008. In accordance with guidance included in ASC 815 (formerly known as SFAS No. 133) as amended and interpreted, we determined that we would be unable to complete the financing by the required date under our hedging program. As a result, during the fourth quarter of 2008, we recognized a net derivative loss of approximately $7.2 million representing the ineffectiveness of our remaining interest rate hedging contracts.

In addition, during the year ended December 31, 2008, we modified the estimated dates with respect to our anticipated financings under our interest rate hedging program. As a result, we recognized a net derivative loss of approximately $3.3 million representing the partial ineffectiveness of the interest rate contracts.

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Losses (Gains) from Investments in Securities

We account for investments in trading securities at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. The designation of trading securities is generally determined at acquisition. During the year ended December 31, 2009 and 2008, investment in securities is comprised of an investment in an unregistered money market fund and investments in an account associated with our deferred compensation plan. In December 2007, the unregistered money market fund suspended cash redemptions by investors; investors could elect in-kind redemptions of the underlying securities or maintain their investment in the fund and receive distributions as the underlying securities matured or were liquidated by the fund sponsor. As a result, we retained this investment for a longer term than originally intended, and the valuation of our investment was subject to changes in market conditions. Because interests in this fund were valued at less than their $1.00 par value, we recognized losses (gains) of approximately ($0.2) million and $1.4 million on our investment during the years ended December 31, 2009 and 2008, respectively. As of December 31, 2009, we no longer had investments in this unregistered money market fund.

The remainder of the losses (gains) from investments in securities in 2009 and 2008 related to investments that we have made to reduce our market risk relating to a deferred compensation plan that we maintain for our officers. Under this deferred compensation plan, each officer who is eligible to participate is permitted to defer a portion of the officer s current income on a pre-tax basis and receive a tax-deferred return on these deferrals based on the performance of specific investments selected by the officer. In order to reduce our market risk relating to this plan, we typically acquire, in a separate account that is not restricted as to its use, similar or identical investments as those selected by each officer. This enables us to generally match our liabilities to our officers under the deferred compensation plan with equivalent assets and thereby limit our market risk. The performance of these investments is recorded as loss (gain) from investments in securities. During the year ended December 31, 2009 and 2008, respectively, we recognized losses (gains) of $(2.2) million and $3.2 million on these investment. By comparison, our general and administrative expense increased (decreased) by $2.4 million and $(3.2) million during the year ended December 31, 2009 and 2008, respectively, as a result of increases and decreases in our liability under our deferred compensation plan that were associated with the performance of the specific investments selected by our officers participating in the plan.

Losses from Early Extinguishments of Debt

On June 9, 2009, we used available cash to repay the mortgage loan collateralized by our Reservoir Place property located in Waltham, Massachusetts totaling approximately $47.8 million. There was no prepayment penalty associated with the repayment. In accordance with EITF 98-1, the principal amount had been adjusted upon acquisition of the property to reflect the fair value of the assumed note. Due to the repayment of the mortgage, we recognized a gain of approximately $32,000 related to the write off of the remaining fair value balance.

On June 26, 2009, we used available cash to repay the mortgage loan collateralized by our Ten Cambridge Center property located in Cambridge, Massachusetts totaling approximately $30.1 million. We paid a prepayment penalty totaling approximately $0.5 million in connection with the repayment and wrote off approximately $26,000 of unamortized deferred financing costs.

On August 3, 2009, we used available cash to repay the mortgage loans collateralized by our 1301 New York Avenue property located in Washington, DC totaling approximately $20.5 million and we wrote off approximately $16,000 of unamortized deferred financing costs.

Income (loss) from unconsolidated joint ventures

During December 2008, we recognized non-cash impairment charges which represented the other-than-temporary decline in the fair values below the carrying values of certain of our investments in unconsolidated joint ventures. In accordance with guidance in Accounting Standards Codification (ASC) 323 Investments Equity Method and Joint Ventures (ASC 323) (formerly known as Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB No. 18)), a loss in value of an investment under the equity method of accounting, which is other than a temporary decline, must be recognized. As a result, we recognized non-cash impairment charges of approximately $31.9 million, $74.3 million, $45.1 million and $13.8 million on our investments in 540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street and the Value-Added Fund, respectively. In addition, in June 2009 and December 2009, we recognized additional non-cash impairment charges on our investment in the Value-Added Fund of approximately $7.4 million and $2.0 million, respectively. If the fair value of our investments deteriorates further, we could recognize additional impairment charges which may be material.

In addition, during December 2009, our Value-Added Fund recognized a non-cash impairment charge in accordance with the guidance in ASC 360 (formerly known as SFAS No. 144) related to our One and Two Circle Star Way properties in San Carlos, California totaling approximately $24.6 million, of which our share was approximately $4.2 million, which amount reflects the reduction in our basis of approximately $2.0 million from previous impairment losses. The One and Two Circle Star Way properties will be vacant by the end of February 2010 and leasing activity continues to be challenging, with market rents declining significantly. The Value-Added Fund has a mortgage loan collateralized by the properties which is non-recourse to us and which expires in September 2013 and includes a cash escrow in place to fund the interest expense and carrying costs through mid-2010. The Value-Added Fund is currently in discussions with the lender to modify the loan and as a result believes that the carrying value of the properties may not be recoverable. Accordingly, the Value-Added Fund recognized the non-cash impairment charge to reduce the net book value of the properties to their estimated fair market value at December 31, 2009.

During December 2008, an unconsolidated joint venture in which we have a 50% interest suspended development activity on its Eighth Avenue and 46th Street project located in New York City. The proposed project was comprised of an assemblage of land parcels and air-rights, including contracts to acquire land parcels and air-rights, on which the joint venture was to construct a Class A office property. As a result, we recognized a charge totaling approximately $23.2 million (including $2.9 million of non-cash impairment charges in accordance with guidance in ASC 323), which represented our share of land and air-rights impairment losses, forfeited contract deposits and previously incurred planning and pre-development costs.

On June 9, 2008, we completed the acquisition of the General Motors Building for a purchase price of approximately $2.8 billion. On August 12, 2008, we completed the acquisitions of 540 Madison Avenue and Two Grand Central Tower located in New York City, New York for an aggregate purchase price of approximately $705.0 million. On August 13, 2008, we completed the acquisition of 125 West 55th Street located in New York City, New York for an aggregate price of $444.0 million. Each acquisition was completed through a joint venture with US Real Estate Opportunities I, L.P. and Meraas Capital LLC. We have a 60% interest in each venture and provide customary property management and leasing services for each venture.

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The following table presents actual financial information for the joint ventures for the year ended December 31, 2009 for the General Motors Building and 540 Madison Avenue, Two Grand Central Tower and 125 West 55th Street, respectively. These acquisitions increased our income from unconsolidated joint ventures by approximately $19.7 million for the year ended December 31, 2009 compared to 2008.

	The General Motors Building for the year ended December 31, 2009 (in thousands)	540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street for the year ended December 31, 2009 (in thousands)
Base rent and recoveries from tenants	$ 189,935	$ 105,478
Straight-line rent	16,831	9,632
Fair value lease revenue	139,159	11,413
Parking and other	2,085	1,539
Total rental revenue	348,010	128,062
Operating expenses	72,914	40,106
Revenue less operating expenses	275,096	87,956
Interest expense	149,596	32,366
Fair value interest expense	8,267	5,308
Depreciation and amortization	151,686	46,131
Income (Loss) before elimination of inter-entity interest on partner loan	(34,453)	4,151
Our share of Net Income (Loss) (60%)	(20,672)	2,491
Basis differential		8,668
Elimination of inter-entity interest on partner loan	32,342	
Income from unconsolidated joint ventures (60%)	$ 11,670	$ 11,159

Gains on sales of real estate and other assets

Pursuant to the purchase and sale agreement related to the sale of 280 Park Avenue in New York City in 2006, we entered into a master lease agreement with the buyer at closing. Under the master lease agreement, we guaranteed that the buyer will receive at least a minimum amount of base rent from approximately 74,340 square feet of space during the ten-year period following the expiration of the leases for this space. The leases for this space expired at various times between June 2006 and October 2007. The aggregate amount of base rent we guaranteed over the entire period from 2006 to 2017 is approximately $67.3 million. During the year ended December 31, 2008, we signed new qualifying leases for approximately 17,454 net rentable square feet of the remaining master lease obligation, resulting in the recognition of approximately $23.4 million. During the year ended December 31, 2009, we signed no new qualifying leases and our remaining master lease obligation totaled approximately $0.9 million.

On April 14, 2008, we sold a parcel of land located in Washington, DC for approximately $33.7 million. We 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 our involvement in the construction of the project, the gain on sale estimated to total $23.4 million was deferred and is being recognized over the project construction period generally based on the percentage of total project costs incurred to estimated total project costs. As a result, we recognized a gain on sale during the year ended December 31, 2009 and December 31, 2008 of approximately

$11.8 million and $9.9 million, respectively. We expect to recognize the remaining $1.7 million of gain during fiscal 2010.

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Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships increased by approximately $0.8 million for the year ended December 31, 2009 compared to 2008. Noncontrolling interests in property partnerships consist of the outside equity owners interests in the income from our 505 9th Street and our Wisconsin Place Office properties.

Noncontrolling interest common units of the Operating Partnership

Noncontrolling interest common units of the Operating Partnership increased by approximately $21.1 million for the year ended December 31, 2009 compared to 2008 primarily due to an increase in allocable income.

Comparison of the year ended December 31, 2008 to the year ended December 31, 2007

The table below shows selected operating information for the Same Property Portfolio and the Total Property Portfolio. The Same Property Portfolio consists of 115 properties, including properties acquired or placed in-service on or prior to January 1, 2007 and owned through December 31, 2008, totaling approximately 28.9 million net rentable square feet of space (excluding square feet of structured parking). The Total Property Portfolio includes the effects of the other properties either placed in-service, acquired or repositioned after January 1, 2007 or disposed of on or prior to December 31, 2008. Properties Placed In-Service includes our 505 9th Street joint venture project. In connection with partially placing this property in-service, we consolidated the joint venture entity that owns the property as of October 1, 2007 due to the involvement we have in the venture once the property is operational. The Same Property Portfolio includes our Cambridge Center Marriott hotel property, but does not include the Long Wharf Marriott hotel property, which was sold on March 23, 2007. This table includes a reconciliation from the Same Property Portfolio to the Total Property Portfolio by also providing information for the year ended December 31, 2008 and 2007 with respect to the properties which were acquired, placed in-service, repositioned or sold.

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	Same Property Portfolio				Properties Sold		Properties Acquired		Properties Placed In-Service		Properties Repositioned		Total Property Portfolio			
in thousands)	2008	2007	Increase/ (Decrease)	% Change	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	Increase/ (Decrease)	% Cha
evenue:																
evenue	$ 1,326,099	$ 1,288,085	$ 38,014	2.95%	$ 90	$ 23,177	$ 20,137	$ 12,138	$ 43,283	$ 3,837	$	$	$ 1,389,609	$ 1,327,237	$ 62,372	
tion Income	12,443	6,882	5,561	80.80%				100					12,443	6,982	5,461	7
ntal Revenue	1,338,542	1,294,967	43,575	3.36%	90	23,177	20,137	12,238	43,283	3,837			1,402,052	1,334,219	67,833	
ate Operating s	471,040	444,364	26,676	6.00%	46	6,781	6,406	3,499	10,538	1,196			488,030	455,840	32,190	
rating Income, g hotel	867,502	850,603	16,899	1.99%	44	16,396	13,731	8,739	32,745	2,641			914,022	878,379	35,643	
t Operating 1)	9,362	10,046	(684)	(6.80)%									9,362	10,046	(684)	
ated Net g Income(1)	876,864	860,649	16,215	1.88%	44	16,396	13,731	8,739	32,745	2,641			923,384	888,425	34,959	
venue:																
ment and nent services													30,518	20,553	9,965	4
and other													18,958	89,706	(70,748)	(7
her Revenue													49,476	110,259	(60,783)	(5
penses:																
and rative expense													72,365	69,882	2,483	
Expense													295,322	302,980	(7,658)	
tion and tion	284,452	274,268	10,184	3.71%		2,767	10,527	8,357	9,168	638			304,147	286,030	18,117	
gains) from nts in s													4,604		4,604	10
vative losses													17,021		17,021	10
om early hments of														3,417	(3,417)	(10
her Expenses	284,452	274,268	10,184	3.71%		2,767	10,527	8,357	9,168	638			693,459	662,309	31,150	
efore income m idated joint gains on eal estate and ets, ued s and net ttributable to olling	$ 592,412	$ 586,381	$ 6,031	1.03%	$ 44	$ 13,629	$ 3,204	$ 382	$ 23,577	$ 2,003	$	$	$ 279,401	$ 336,375	$ (56,974)	(
loss) from idated joint	$ (33,794)	$ 20,428	$ (54,222)	(265.43)%	$	$	$ (148,224)	$	$	$	$	$	(182,018)	20,428	(202,446)	(99
sales of real d other assets													33,340	929,785	(896,445)	(9

rom continued ns	130,723	1,286,588	(1,155,865)	(8
nued ns:				
rom ued ns		7,274	(7,274)	(10
sales of real om ued ns		259,519	(259,519)	(10
me	130,723	1,553,381	(1,422,658)	(9
me ble to olling				
rolling in property hips	(1,997)	(84)	(1,913)	(2,27
rolling common units perating hips	(14,392)	(51,978)	37,586	7
rolling interest on sales of e and other ommon units of ating hip	(4,838)	(140,547)	135,709	9
rolling interest tinued ns common he Operating hip		(40,237)	40,237	10
rolling redeemable units of the g Partnership	(4,226)	(10,429)	6,203	5
me ble to Boston s, Inc.	$ 105,270	$ 1,310,106	$ (1,204,836)	(9

(1) For a detailed discussion of NOI, including the reasons management believes NOI is useful to investors, see page 52. Hotel Net Operating Income for the years ended December 31, 2008 and 2007 is comprised of Hotel Revenue of $36,872 and $37,811, respectively, less Hotel Expenses of $27,510 and $27,765, respectively, per the Consolidated Statements of Operations.

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Rental Revenue

The increase of approximately $62.4 million in the Total Property Portfolio rental revenue is comprised of increases and decreases within four categories that comprise our Total Property Portfolio. Rental revenue from the Same Property Portfolio increased approximately $38.0 million, Properties Sold decreased approximately $23.1 million, Properties Acquired increased approximately $8.0 million and Properties Placed In-Service increased approximately $39.5 million for the year ended December 31, 2008 compared to the year ended December 31, 2007.

Rental revenue from the Same Property Portfolio increased approximately $38.0 million for the year ended December 31, 2008 compared to 2007. Included in the Same Property Portfolio rental revenue is an overall increase in contractual rental revenue of approximately $49.2 million, offset by a decrease of approximately $30.9 million in straight-line rents. An aggregate of $21.0 million of the decrease in straight-line rent is due to the establishment of reserves for the full amount of the accrued straight-line rent balances associated with our leases in New York City with Lehman Brothers, Inc. and the law firm of Heller Ehrman LLP. Approximately $17.3 million of the increase from the Same Property Portfolio was due to an increase in recoveries from tenants which relates to the increase in operating expenses. Approximately $2.4 million of the increase from the Same Property Portfolio was due to an increase in parking and other income.

The increase in rental revenue from Properties Placed In-Service relates to fully placing in-service our 505 9th Street development project in the first quarter of 2008 and our 77 CityPoint and South of Market development projects during the fourth quarter of 2008. In addition, we partially placed in-service our One Preserve Parkway development project during the second quarter of 2008. Rental revenue from Properties Placed In-Service increased approximately $39.5 million, as detailed below:

Property	Quarter Placed In-Service	Rental Revenue for the year ended December 31		
		2008	2007	Change
		(in thousands)		
505 9th Street	First Quarter, 2008	$ 20,090	$ 3,837	$ 16,253
South of Market	Fourth Quarter, 2008	20,010		20,010
77 CityPoint	Fourth Quarter, 2008	2,098		2,098
One Preserve Parkway	Second Quarter, 2008	1,085		1,085
Total		$ 43,283	$ 3,837	$ 39,446

The acquisitions of Kingstowne Towne Center, North First Business Park, 103 Fourth Avenue, 6601 & 6605 Springfield Center Drive and Springfield Metro Center during 2007 and 635 Massachusetts Avenue during 2008, resulted in an increase of revenue from Properties Acquired. Rental revenue resulting from Properties Acquired increased approximately $8.0 million, as detailed below:

Property	Date Acquired	Rental Revenue for the year ended December 31		
		2008	2007	Change
		(in thousands)		
Kingstowne Towne Center	March 30, 2007	$ 14,584	$ 10,631	$ 3,953
North First Business Park	December 13, 2007	2,571	102	2,469
635 Massachusetts Avenue	September 26, 2008	1,828		1,828
103 Fourth Avenue	January 29, 2007	795	720	75
6601 & 6605 Springfield Center Drive	January 18, 2007	359	685	(326)
Springfield Metro Center	April 11, 2007			

Total	$ 20,137	$ 12,138	$ 7,999

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A decrease of approximately $23.1 million in the Total Property Portfolio rental revenue was due to the sales of Democracy Center in August 2007 and 5 Times Square in February 2007 and the transfer of Mountain View Research Park and Mountain View Technology Park to the Value-Added Fund in January 2008, as detailed below. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property and our continued ownership interest in Mountain View Research Park and Mountain View Technology Park through the Value-Added Fund.

Property	Date Sold	Rental Revenue for the year ended December 31		
		2008	2007	Change
			(in thousands)	
Mountain View Properties	January 7, 2008	$ 90	$ 1,275	$ (1,185)
Democracy Center	August 7, 2007		12,016	(12,016)
5 Times Square	February 15, 2007		9,886	(9,886)
Total		$ 90	$ 23,177	$ (23,087)

Termination Income

Termination income for the year ended December 31, 2008 totaling approximately $12.4 million was related to multiple tenants across the Total Property Portfolio that terminated their leases, including $7.5 million of termination income related to a termination agreement with Heller Ehrman LLP. This compared to termination income of $7.0 million for the year ended December 31, 2007.

Real Estate Operating Expenses

The $32.2 million increase in property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Total Property Portfolio is comprised of increases and decreases within the four categories that comprise our Total Property Portfolio. Operating expenses for the Same Property Portfolio increased approximately $26.7 million, Properties Sold decreased approximately $6.7 million, Properties Acquired increased approximately $2.9 million and Properties Placed In-Service increased approximately $9.3 million.

Operating expenses from the Same Property Portfolio increased approximately $26.7 million for the year ended December 31, 2008 compared to 2007. Included in Same Property Portfolio operating expenses is an increase in utility expenses of approximately $5.7 million, which represents an increase of approximately 7% over the prior year. In addition, real estate taxes increased approximately $14.2 million due to increased real estate tax assessments, which represents an increase of approximately 8%. The remaining increase of approximately $6.8 million is related to repairs and maintenance and other property-related expenses.

The acquisitions of Kingstowne Towne Center, North First Business Park, 103 Fourth Avenue, 6601 & 6605 Springfield Center Drive and Springfield Metro Center during 2007, and 635 Massachusetts Avenue during 2008, increased operating expenses from Properties Acquired by approximately $2.9 million for the year ended December 31, 2008 as detailed below:

Property	Date Acquired	Real Estate Operating Expense for the year ended December 31 2008	2007	Change
Kingstowne Towne Center	March 30, 2007	$ 3,808	$ 2,591	$ 1,217
North First Business Park	December 13, 2007	1,138	46	1,092
103 Fourth Avenue	January 29, 2007	759	606	153
635 Massachusetts Avenue	September 26, 2008	274		274
6601 & 6605 Springfield Center Drive	January 18, 2007	239	167	72
Springfield Metro Center	April 11, 2007	188	89	99
Total		$ 6,406	$ 3,499	$ 2,907

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The increase in operating expenses from Properties Placed In-Service relates to fully placing in-service our 505 9th Street development project in the first quarter of 2008 and our 77 CityPoint and South of Market development projects during the fourth quarter of 2008. In addition, we partially placed in-service our One Preserve Parkway development project during the second quarter of 2008. Operating expenses from Properties Placed In-Service increased approximately $9.3 million, as detailed below:

Property	Quarter Placed In-Service	Real Estate Operating Expenses for the year ended December 31 2008	2007	Change
		(in thousands)		
505 9th Street	First Quarter, 2008	$ 5,672	$ 1,196	$ 4,476
South of Market	Fourth Quarter, 2008	3,466		3,466
77 CityPoint	Fourth Quarter, 2008	883		883
One Preserve Parkway	Second Quarter, 2008	517		517
Total		$ 10,538	$ 1,196	$ 9,342

A decrease of approximately $6.7 million in the Total Property Portfolio operating expenses was due to the sales of Democracy Center in August 2007 and 5 Times Square in February 2007 and the transfer of Mountain View Research Park and Mountain View Technology Park to the Value-Added Fund in January 2008, as detailed below. These properties have not been classified as discontinued operations due to our continuing involvement as the property manager for each property and our continued ownership interest in Mountain View Research Park and Mountain View Technology Park through the Value-Added Fund.

Property	Date Sold	Real Estate Operating Expenses for the year ended December 31 2008	2007	Change
		(in thousands)		
Mountain View Properties	January 7, 2008	$ 46	$ 412	$ (366)
Democracy Center	August 7, 2007		4,204	(4,204)
5 Times Square	February 15, 2007		2,165	(2,165)
Total		$ 46	$ 6,781	$ (6,735)

Hotel Net Operating Income

Net operating income for our hotel property decreased approximately $0.7 million, a 6.8% decrease for the year ended December 31, 2008 as compared to 2007. For the year ended December 31, 2007, the operations of the Long Wharf Marriott have been included as part of discontinued operations due to its sale on March 23, 2007.

The following reflects our occupancy and rate information for our Cambridge Center Marriott hotel property for the year ended December 31, 2008 and 2007:

	2008	2007	Percentage Change
Occupancy	77.7%	80.0%	(2.88)%
Average daily rate	$ 217.70	$ 217.23	0.21%
Revenue per available room, REVPAR	$ 169.08	$ 173.80	(2.72)%

Development and Management Services

Development and management services income increased approximately $10.0 million for the year ended December 31, 2008 compared to 2007. The increase is primarily attributed to $2 million of acquisition fees and

approximately $3.8 million of ongoing management fees from our joint ventures that acquired the General Motors Building, 540 Madison Avenue, Two Grand Central Tower and 125 West 55th Street in New York City, as well as development fees of approximately $2.5 million for our 20 F Street third-party development project.

Interest and Other Income

Interest and other income decreased by approximately $70.7 million for the year ended December 31, 2008 compared to 2007 as a result of lower overall interest rates and decreased cash balances. The approximate average cash balances for the year ended December 31, 2008 and December 31, 2007 were $450.0 million and $1.7 billion, respectively. In addition, the average interest rate for the year ended December 31, 2008 compared to December 31, 2007 decreased by approximately 2.80%.

Other Expenses

General and Administrative Expense

General and administrative expense increased approximately $2.5 million for the year ended December 31, 2008 compared to 2007. The increase is primarily due to compensation expense associated with the 2008 OPP Awards offset by a loss in our deferred compensation plan and a decrease in abandoned project costs.

On January 24, 2008, our compensation committee approved outperformance awards under the 1997 Plan to our officers and employees. These 2008 OPP Awards are part of a broad-based long-term incentive compensation program designed to provide our management team at several levels within the organization with the potential to earn equity awards subject to outperforming and creating shareholder value in a pay-for-performance structure. 2008 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2008 OPP Awards will share in an outperformance pool if our TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 5, 2008 to February 5, 2011, based on the average closing price of a share of our common stock of $92.8240 for the five trading days prior to and including February 5, 2008. The aggregate reward that recipients of all 2008 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of $110 million, although OPP awards for an aggregate of up to approximately $104.8 million have been allocated to date and were granted on February 5, 2008. The balance remains available for future grants. Under guidance included in Accountings Standards Codification 718 Compensation Stock Compensation (formerly known as Statement of Financial Accounting Standards No. 123(R) Share-Based Payment) the 2008 OPP Awards have an aggregate value of approximately $19.7 million, which amount will generally be amortized into earnings over the five-year plan period (although awards for retirement-eligible employees will be amortized over a three-year period).

Commencing in 2003, we began issuing restricted stock and/or LTIP Units, as opposed to granting stock options and restricted stock, under the 1997 Plan as our primary vehicle for employee equity compensation. An LTIP Unit is generally the economic equivalent of a share of our restricted stock. Employees vest in restricted stock and LTIP Units over a four- or five-year term (for awards granted between 2003 and November 2006, vesting is over a five-year term with annual vesting of 0%, 0%, 25%, 35% and 40%; and for awards granted after November 2006, vesting occurs in equal annual installments over a four-year term). Restricted stock and LTIP Units are valued based on observable market prices for similar instruments. Such value is recognized as an expense ratably over the corresponding employee service period. LTIP Units that were issued in January 2005 and any future LTIP Unit awards will be valued using an option pricing model in accordance with the provisions of guidance included in ASC 715 (formerly known as SFAS No. 123R). To the extent restricted stock or LTIP Units are forfeited prior to vesting,

the corresponding previously recognized expense is reversed as an offset to stock-based compensation. Stock-based compensation associated with approximately $24.1 million of restricted stock and LTIP Units granted in February 2008 and approximately $17.5 million of restricted stock and

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LTIP Units granted in February 2007 will be incurred ratably over the four-year vesting period. Stock-based compensation associated with approximately $11.5 million of restricted stock and LTIP Units granted in April 2006 will be incurred ratably over the five-year vesting period.

Interest Expense

Interest expense for the Total Property Portfolio decreased approximately $7.7 million for the year ended December 31, 2008 compared to 2007 as detailed below

Component	Change in interest expense for the years ended December 31, 2008 and December 31, 2007 (in thousands)
Decreases to interest expense due to:	
Repayment of mortgages(1)	$ (29,921)
Increase in capitalized interest costs	(12,974)
Principal amortization of continuing debt and other (excluding exchangeable senior notes)	(6,924)
Total decreases to interest expense	$ (49,819)
Increases to interest expense due to:	
Refinancing of 599 Lexington Avenue and other new debt	$ 16,875
Issuance by our Operating Partnership of exchangeable senior notes	13,209
Borrowings under the Unsecured Line of Credit	3,693
ASC 470-20 interest expense	8,384
Total increases to interest expense	$ 42,161
Total change in interest expense	$ (7,658)

(1) Excludes refinancing of 599 Lexington Avenue.

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At December 31, 2008, our variable rate debt consisted of our construction loans at South of Market, Democracy Tower (formerly South of Market Phase II) and Wisconsin Place Office construction projects, as well as our borrowings under our Unsecured Line of Credit. The following summarizes our outstanding debt as of December 31, 2008 compared with December 31, 2007:

	December 31,	
	2008	2007
	(dollars in thousands)	
Debt Summary:		
Balance		
Fixed rate	$ 5,707,392	$ 5,255,437
Variable rate	385,492	122,923
Total	$ 6,092,884	$ 5,378,360
Percent of total debt:		
Fixed rate	93.67%	97.71%
Variable rate	6.33%	2.29%
Total	100.00%	100.00%
GAAP weighted average interest rate at end of period:		
Fixed rate	6.15%	6.11%
Variable rate	3.62%	6.11%
Total	5.99%	6.11%
Coupon/Stated weighted-average interest rate at end of period:		
Fixed rate	5.43%	5.68%
Variable rate	3.07%	5.88%
Total	5.28%	5.69%

Depreciation and Amortization

Depreciation and amortization expense for the Total Property Portfolio increased approximately $18.1 million for the year ended December 31, 2008 compared to 2007. Approximately $10.2 million related to an increase in the Same Property Portfolio and approximately $2.2 million related to acquisition activity. An increase of approximately $8.5 million was attributed to Properties Placed In-Service. These increases were offset by a decrease of approximately $2.8 million due to the sale of Democracy Center in August 2007 and 5 Times Square in February 2007.

Capitalized Costs

Costs directly related to the development of rental properties are not included in our operating results. These costs are capitalized and included in real estate assets on our Consolidated Balance Sheets and amortized over their useful lives. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the year ended December 31, 2008 and 2007 were $12.2 million and $11.0 million, respectively. These costs are not included in the general and administrative expense discussed above. Interest capitalized for the year ended December 31, 2008 and 2007 was $46.3 million and $33.3 million, respectively.

These costs are not included in the interest expense referenced above.

Net Derivative Losses

On September 9, 2008, we executed an interest rate lock agreement with lenders at an all-in fixed rate, inclusive of the credit spread, of 6.10% per annum for an eight-year, $375.0 million loan collateralized by our

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Four Embarcadero Center property located in San Francisco, California. Our interest rate hedging program contemplated a financing with a ten-year term and, as a result, under guidance included in ASC 815 Derivatives and Hedging (formerly known as SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities), during the third quarter of 2008 we recognized a net derivative loss of approximately $6.6 million representing the partial ineffectiveness of our interest rate contracts. On November 13, 2008, we closed on the Four Embarcadero Center mortgage. Under our interest rate hedging program, we will reclassify into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheets within Accumulated Other Comprehensive Loss, which amounts represent the effective portion of the applicable interest rate hedging contracts.

Our interest rate hedging program also contemplated obtaining additional financing of at least $150.0 million by the end of 2008. In accordance with guidance included in ASC 815 (formerly known as SFAS No. 133), as amended and interpreted, we determined that we would be unable to complete the financing by the required date under our hedging program. As a result, during the fourth quarter of 2008, we recognized a net derivative loss of approximately $7.2 million representing the ineffectiveness of our remaining interest rate hedging contracts.

In addition, during the year ended December 31, 2008, we modified the estimated dates with respect to our anticipated financings under our interest rate hedging program. As a result, we recognized a net derivative loss of approximately $3.3 million representing the partial ineffectiveness of the interest rate contracts.

Losses (Gains) from Investments in Securities

We account for investments in trading securities at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. The designation of trading securities is generally determined at acquisition. At December 31, 2008, investment in securities is comprised of an investment in an unregistered money market fund. The investment was previously included in Cash and Cash Equivalents. In December 2007, the fund suspended cash redemptions by investors; investors could elect in-kind redemptions of the underlying securities or maintain their investment in the fund and receive distributions as the underlying securities matured or were liquidated by the fund sponsor. As a result, we retained this investment for a longer term than originally intended, and the valuation of our investment was subject to changes in market conditions. Because interests in this fund were valued at less than their $1.00 par value, we recognized losses of approximately $1.4 million and $0.3 million on our investment during the years ended December 31, 2008 and 2007, respectively.

We also maintain a deferred compensation plan that is designed to allow our officers to defer a portion of their current income on a pre-tax basis and receive a tax-deferred return on these deferrals. Our obligation under the plan is that of an unsecured promise to pay the deferred compensation to the plan participants in the future. At December 31, 2008 and 2007, we have balances of approximately $6.6 million and $8.3 million, respectively, into a separate account, which is not restricted as to its use. We recognized losses (gains) of approximately $3.2 million and $(0.3) million on the investments in the account associated with our deferred compensation plan during the years ended December 31, 2008 and 2007, respectively.

Losses from Early Extinguishments of Debt

On February 12, 2007, we refinanced our mortgage loan collateralized by 599 Lexington Avenue located in New York City. The new mortgage financing totaling $750.0 million bears interest at a fixed interest rate of 5.57% per annum and matures on March 1, 2017. The net proceeds of the new loan were used to refinance the $225.0 million mortgage loan on 599 Lexington Avenue and the $475.0 million mortgage loan on Times Square Tower. In connection with the refinancing, the lien of the Times Square Tower mortgage was spread to 599 Lexington Avenue and released from Times Square Tower so that Times Square Tower is no longer encumbered by any mortgage debt. There was no prepayment

penalty associated with the repayment. In 2007, we recognized

a loss from early extinguishment of debt totaling approximately $0.7 million consisting of the write-off of unamortized deferred financing costs.

In conjunction with the sale of Democracy Center in Bethesda, Maryland on August 7, 2007, we repaid the mortgage financing collateralized by the property totaling approximately $94.6 million. We paid a prepayment fee of approximately $2.6 million associated with the repayment. We recognized a loss from early extinguishment of debt totaling approximately $2.7 million consisting of the prepayment fee and the write-off of unamortized deferred financing costs.

Income (loss) from unconsolidated joint ventures

For the year ended December 31, 2008, income (loss) from unconsolidated joint ventures decreased approximately $202.4 million compared to December 31, 2007.

During December 2008, we recognized non-cash impairment charges which represented the other-than-temporary decline in the fair values below the carrying values of certain of the Company s investments in unconsolidated joint ventures. In accordance with guidance included in ASC 323 Investments Equity Method and Joint Ventures (ASC 323) (formerly known as Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB No. 18)), a loss in value of an investment under the equity method of accounting, which is other than a temporary decline, must be recognized. As a result, we recognized non-cash impairment charges of approximately $31.9 million, $74.3 million, $45.1 million and $13.8 million on our investments in 540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street and the Value-Added Fund, respectively. If the fair value of our investments deteriorate further, we could recognize additional impairment charges which may be material.

During December 2008, an unconsolidated joint venture in which we have a 50% interest, suspended development activity on its Eighth Avenue and 46th Street project located in New York City. The proposed project was comprised of an assemblage of land parcels and air-rights, including contracts to acquire land parcels and air-rights, on which the joint venture was to construct a Class A office property. As a result, we recognized a charge totaling approximately $23.2 million (including $2.9 million of non-cash impairment charges in accordance with guidance included in ASC 323 (formerly known as APB No. 18), which represented our share of land and air-rights impairment losses, forfeited contract deposits and previously incurred planning and pre-development costs.

On June 9, 2008, we completed the acquisition of the General Motors Building for a purchase price of approximately $2.8 billion. On August 12, 2008, we completed the acquisitions of 540 Madison Avenue and Two Grand Central Tower located in New York City, New York for an aggregate purchase price of approximately $705.0 million. On August 13, 2008, we completed the acquisition of 125 West 55th Street located in New York City, New York for an aggregate price of $444.0 million. Each acquisition was completed through a joint venture with US Real Estate Opportunities I, L.P. and Meraas Capital LLC. We have a 60% interest in each venture and provide customary property management and leasing services for each venture.

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The following table presents actual financial information for the joint ventures for the period ended December 31, 2008 for the General Motors Building and 540 Madison Avenue, Two Grand Central Tower and 125 West 55th Street, respectively. These acquisitions will impact our income (loss) from unconsolidated joint ventures in future periods.

	The General Motors Building For the period from June 9, 2008 December 31, 2008 (in thousands)	540 Madison Avenue, Two Grand Central Tower, 125 West 55th Street For the period from August 12, 2008 December 31, 2008(1) (in thousands)
Base rent and recoveries from tenants	$ 105,634	$ 34,587
Straight-line rent	7,965	5,545
Fair value lease revenue	79,365	12,506
Parking and other	1,798	523
Total rental revenue	194,762	53,161
Operating expenses	41,497	14,663
Revenue less operating expenses	153,265	38,498
Interest expense	82,266	12,547
Fair value interest expense	4,477	2,020
Depreciation and amortization	91,220	22,225
Income (Loss) before elimination of inter-entity interest on partner loan	(24,698)	1,706
Our share of Net Income (Loss) (60%)	(14,819)	1,024
Elimination of inter-entity interest on partner loan	16,932	
Income (loss) from unconsolidated joint ventures (60%)	$ 2,113	$ 1,024

(1) Information for 125 West 55th Street is presented for the period of August 13, 2008 through December 31, 2008.

On June 1, 2007, our Value-Added Fund sold Worldgate Plaza located in Herndon, Virginia for approximately $109.0 million. Worldgate Plaza is an office complex consisting of approximately 322,000 net rentable square feet. Net cash proceeds totaled approximately $50.5 million, of which our share was approximately $20.3 million, after the repayment of the mortgage indebtedness of $57.0 million. Our share of the gain, which is included as income from joint ventures, was approximately $15.5 million which amount reflects the achievement of certain return thresholds as provided for in the joint venture agreement.

Gains on sales of real estate and other assets

On April 14, 2008, we sold a parcel of land located in Washington, DC for approximately $33.7 million. We 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 our involvement in the construction of the project, the gain on sale estimated to total $23.4 million has been deferred

and will be recognized over the project construction period generally, based on the percentage of total project costs incurred to estimated total project costs. As a result, we recognized a gain on sale during the year ended December 31, 2008 of approximately $9.9 million.

On August 7, 2007, we sold Democracy Center in Bethesda, Maryland, for approximately $280.5 million. Net cash proceeds totaled approximately $184.5 million, after the repayment of the mortgage indebtedness of approximately $94.6 million and closing costs of approximately $1.4 million, resulting in a gain on sale of

approximately $198.2 million. Due to our continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations. As of August 31, 2008, we no longer provide management services for this building.

Pursuant to the purchase and sale agreement related to the sale of 280 Park Avenue, we entered into a master lease agreement with the buyer at closing. Under the master lease agreement, we guaranteed that the buyer will receive at least a minimum amount of base rent from approximately 74,340 square feet of space during the ten-year period following the expiration of the leases for this space. The leases for this space expired at various times between June 2006 and October 2007. The aggregate amount of base rent we guaranteed over the entire period from 2006 to 2017 is approximately $67.3 million. During the year ended December 31, 2008 and 2007, we signed new qualifying leases for approximately 17,454 and 22,250 net rentable square feet of the remaining master lease obligation, resulting in the recognition of approximately $23.4 million and $18.0 million of additional gain on sale of real estate, respectively. As of December 31, 2008, the remaining master lease obligation totaled approximately $0.9 million.

On February 15, 2007, we sold the long-term leasehold interest in 5 Times Square in New York City and related credits, for approximately $1.28 billion in cash. Net cash proceeds totaled approximately $1.23 billion, resulting in a gain on sale of approximately $713.5 million. Due to our continuing involvement through an agreement with the buyer to manage the property for a fee after the sale, this property has not been categorized as discontinued operations.

Income from discontinued operations

For the year ended December 31, 2007, Orbital Sciences Campus and Broad Run Business Park, Building E, Newport Office Park and Long Wharf Marriott were included as part of income from discontinued operations.

Gains on sales of real estate from discontinued operations

On November 20, 2007, we sold our Orbital Sciences Campus and Broad Run Business Park, Building E properties located in Loudon County, Virginia, for approximately $126.7 million. The Orbital Sciences Campus and Broad Run Business Park, Building E properties are comprised of three Class A office properties aggregating approximately 337,000 net rentable square feet and an office/technical property totaling approximately 127,000 net rentable square feet, respectively. Net cash proceeds totaled approximately $125.4 million, resulting in a gain on sale of approximately $55.0 million.

On April 5, 2007, we sold Newport Office Park, an approximately 172,000 net rentable square foot Class A office property located in Quincy, Massachusetts, for approximately $37.0 million. Net cash proceeds totaled approximately $33.7 million, resulting in a gain on sale of approximately $13.6 million.

On March 23, 2007, we completed the sale of the Long Wharf Marriott, a 402-room hotel located in Boston, Massachusetts for a total sale price of $231.0 million, or approximately $575,000 per room. The net gain on sale was approximately $191.0 million.

Noncontrolling interests in property partnerships

Noncontrolling interests in property partnerships for the years ended December 31, 2008 and 2007 consist of the outside equity interests in the venture that owns our Wisconsin Place Office property as well as our 505 9th Street project.

Noncontrolling interest common units of the Operating Partnership

Noncontrolling interest common units of the Operating Partnership decreased $37.6 million for the year ended December 31, 2008 compared to 2007 primarily as a result of the decrease in allocable income.

Liquidity and Capital Resources

General

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

- fund normal recurring expenses;
- meet debt service and principal repayment obligations, including balloon payments on maturing debt;
- fund capital expenditures, including major renovations, tenant improvements and leasing costs;
- fund development costs;
- fund possible property acquisitions; and
- make the minimum distribution required to maintain our REIT qualification under the Internal Revenue Code of 1986, as amended.

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

- construction loans;
- long-term secured and unsecured indebtedness (including unsecured exchangeable indebtedness);
- cash flow from operations;
- distribution of cash flows from joint ventures;
- cash and cash equivalent balances;
- sales of real estate;
- issuances of our equity securities and/or additional preferred or common units of partnership interest in our Operating Partnership; and

our Unsecured Line of Credit or other short-term bridge facilities.

We believe that our liquidity needs will be satisfied using our cash on hand, cash flows generated by operations, availability under our Unsecured Line of Credit and cash flows provided by other financing activities. We draw on multiple financing sources to fund our long-term capital needs. Our Unsecured Line of Credit is utilized primarily as a bridge facility to fund acquisition opportunities, to refinance outstanding indebtedness and to meet short-term development and working capital needs. We generally seek to fund our development projects with construction loans, which may be guaranteed. However, the financing for each particular project ultimately depends on several factors, including, among others, the project s size and duration and our access to cost effective capital at the given time.

The following table presents information on properties under construction for the year ended December 31, 2009 (dollars in thousands):

Construction Properties	Estimated Stabilization Date	Location	# of Buildings	Square feet	Investment to Date(1)	Estimated Total Investment(2)	Percentage Leased(3)
Weston Corporate Center	Third Quarter, 2010	Weston, MA	1	356,367	$ 98,602	$ 150,000	100%
Atlantic Wharf (formerly Russia Wharf)(4)(5)	First Quarter, 2012	Boston, MA	2	860,000	384,298	600,000	58%(6)
2200 Pennsylvania Avenue(7)	Second Quarter, 2012	Washington, DC	2	780,000	88,924	380,000	53%(8)
Total Properties under Construction			5	1,996,367	$ 571,824	$ 1,130,000	66%(6)(8)

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(1) Amounts include approximately $50.7 million of accruals.
(2) Includes net revenue during lease up period.
(3) Represents percentage leased as of February 19, 2010.
(4) Property has a $215 million construction facility. We have not drawn any amounts under this facility.
(5) Project has been updated to reflect the conversion of approximately 160,000 square feet of residential to approximately 200,000 square feet of office, increasing the total square footage to 860,000 square feet. In addition, the estimated total investment has been updated to reflect the completion of the interior build out of the residential component. The project includes 70,000 square feet of residential space for rent and 24,000 square feet of retail space.
(6) Percentage leased excludes 70,000 square feet of the residential component and includes 24,000 square feet of retail space.
(7) Includes 280,000 square feet of the residential component, 50,000 square feet of retail space in the residential component and 22,000 square feet of retail space in the office component.
(8) Percentage leased excludes 330,000 square feet of the residential component and includes 22,000 square feet of retail space in the office component.

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

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

Our capital strategy is to maintain access to multiple sources of capital including secured debt, unsecured debt, and public and private equity such that turmoil in one or more of these sources does not eliminate our access to capital. Consistent with this strategy, (1) in April 2009 we obtained a construction loan facility totaling $215 million (none of which has been drawn to date) collateralized by our Atlantic Wharf development to fund development costs, (2) in June 2009, we issued 17,250,000 shares of common stock (for aggregate net proceeds of approximately $841.9 million), (3) in July 2009, we refinanced our Reservoir Place property with $50 million of secured debt, and (4) in October 2009, we issued $700 million aggregate principal amount of 5.875% senior notes due 2019. These transactions bolstered our liquidity position and, with cash balances as of February 19, 2010 of approximately $1.4 billion and borrowing capacity on our Unsecured Credit facility of approximately $1.0 billion, we are well positioned to meet all of our current development funding obligations, repay near term debt maturities and make new opportunistic investments.

Four assets held by our unconsolidated joint ventures have aggregate debt maturities in 2010 of approximately $658 million (of which our share is approximately $375 million). We expect to refinance these loans with secured debt and anticipate that aggregate proceeds will be sufficient to repay the aggregate existing debts. We and our unconsolidated joint ventures also have an aggregate of approximately $350 million (of which our share is approximately $271 million) of construction loans maturing in 2010. Subject to satisfying certain conditions, we have the right, and intend, to extend these facilities. In addition, we expect to repay an aggregate of approximately $78 million of secured debt on three assets in our Carnegie Center portfolio and one building in Cambridge, MA, upon maturity in 2010.

Our Unsecured Line of Credit expires in August 2010 and contains a one-year extension at our option provided that we are not in default. We currently expect that we will exercise this option and extend the maturity date to August 2011. Our remaining capital commitments over the next few years are to fund our development program.

In addition to our Unsecured Line of Credit and property-specific debt, as of February 19, 2010 we also had approximately $4.1 billion of unsecured senior notes outstanding (including approximately $2.0 billion of exchangeable notes). All of this debt either matures or is redeemable between 2012 and 2019. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, purchase unsecured senior notes for cash in open market purchases or privately negotiated transactions, or both. We will evaluate any such potential transactions in light of then-existing market conditions, taking into account the trading prices of the notes, our current liquidity and prospects for future access to capital.

In total, our remaining capital requirements, net of anticipated funding from existing construction loans, to complete our ongoing developments is approximately $355 million, through the end of 2012, which includes approximately $10.7 million of costs related to One Preserve Parkway which was fully placed in-service during the second quarter of 2009. With available cash proceeds, access to our Unsecured Line of Credit and the anticipated cash flow generated by the operating portfolio, we believe we have sufficient capacity to fund our remaining capital requirements and pursue attractive investment opportunities.

Finally, in prior years, we have been an active seller of real estate assets and, although we will consider additional asset sales, we do not expect any material asset sales in the near future.

REIT Tax Distribution Considerations

Dividend

As a REIT we are subject to a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our annual taxable income. Our policy is to distribute at least 100% of our taxable income to avoid paying federal tax. With a view toward increasing our equity over time and preserving additional capital, we reduced our quarterly dividend in the second quarter of 2009 to $0.50 per common share. Based on our current expectation for taxable income over the next few years, and absent any unanticipated circumstances, we expect that our quarterly dividend will be approximately $0.50 per common share for the next several quarters. There can be no assurance that the actual dividends declared by our Board of Directors will not differ materially.

Sales

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

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Item 8. Financial Statements and Supplementary Data and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below.

Cash and cash equivalents were $1.4 billion and $0.2 billion at December 31, 2009 and December 31, 2008, respectively, representing an increase of $1.2 billion. The increase was a result of the following increases in cash flows:

	Years ended December 31,		
	2009	2008	Increase (Decrease)
		(in thousands)	
Net cash provided by operating activities	$ 617,376	$ 565,311	$ 52,065
Net cash (used in) investing activities	$ (446,601)	$ (1,320,079)	$ 873,478
Net cash provided by (used in) financing activities	$ 1,036,648	$ (510,643)	$ 1,547,291

Our principal source of cash flow is related to the operation of our office properties. The average term of our tenant leases is approximately 7.0 years with portfolio occupancy rates historically in the range of 92% to 95%. Our properties provide a relatively consistent stream of cash flow that provides us with resources to pay operating expenses, debt service and fund quarterly dividend and distribution payment requirements.

Cash is used in investing activities to fund acquisitions, development and recurring and nonrecurring capital expenditures. We selectively invest in new projects that enable us to take advantage of our development, leasing, financing and property management skills and invest in existing buildings that meet our investment criteria. Cash used in investing activities for the year ended December 31, 2009 consisted of the following:

	(in thousands)
Acquisitions/additions to real estate	$ (442,844)
Proceeds from redemptions of investments in securities	4,078
Net investments in unconsolidated joint ventures	(7,835)
Net cash (used in) investing activities	$ (446,601)

Cash provided by financing activities for the year ended December 31, 2009 totaled approximately $1.0 billion. This consisted primarily of the net proceeds from the equity offering in June 2009 and the net proceeds from the offering of our 5.875% senior notes due 2019 in October 2009, offset by the payments of dividends and distributions to our shareholders and the unitholders of BPLP and the repayment of our Unsecured Line of Credit. Future debt payments are discussed below under the heading Debt Financing.

Capitalization

At December 31, 2009, our total consolidated debt was approximately $6.7 billion. The GAAP weighted-average annual interest rate on our consolidated indebtedness was 5.87% and the weighted-average maturity was approximately 4.6 years.

Consolidated debt to total consolidated market capitalization ratio, defined as total consolidated debt as a percentage of the market value of our outstanding equity securities plus our total consolidated debt, is a measure of leverage commonly used by analysts in the REIT sector. Our total consolidated market capitalization was approximately $17.6 billion at December 31, 2009. Total consolidated market capitalization was calculated using the December 31, 2009 closing stock price of $67.07 per common share and the following: (1) 138,880,010 shares of our common stock, (2) 19,814,499 outstanding common units of limited partnership interest in Boston

Properties Limited Partnership (excluding common units held by Boston Properties, Inc.), (3) an aggregate of 1,460,688 common units issuable upon conversion of all outstanding Series Two Preferred Units of partnership interest in Boston Properties Limited Partnership, (4) an aggregate of 1,416,162 common units issuable upon conversion of all outstanding LTIP Units, assuming all conditions have been met for the conversion of the LTIP Units, and (5) our consolidated debt totaling approximately $6.7 billion. The calculation of total consolidated market capitalization does not include 1,080,938 2008 OPP Units because, unlike other LTIP Units, they are not earned until certain return thresholds are achieved. Our total consolidated debt, which excludes debt collateralized by our unconsolidated joint ventures, at December 31, 2009 represented approximately 38.28% of our total consolidated market capitalization. This percentage will fluctuate with changes in the market price of our common stock and does not necessarily reflect our capacity to incur additional debt to finance our activities or our ability to manage our existing debt obligations. However, for a company like ours, whose assets are primarily income-producing real estate, the consolidated debt to total consolidated market capitalization ratio may provide investors with an alternate indication of leverage, so long as it is evaluated along with other financial ratios and the various components of our outstanding indebtedness.

For a discussion of our unconsolidated joint venture indebtedness, see Off Balance Sheet Arrangements Joint Venture Indebtedness.

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Debt Financing

As of December 31, 2009, we had approximately $6.7 billion of outstanding consolidated indebtedness, representing approximately 38.28% of our total consolidated market capitalization as calculated above consisting of (1) $2.172 billion (net of discount) in publicly traded unsecured debt having a weighted-average interest rate of 6.01% per annum and maturities in 2013, 2015 and 2019; (2) $419.8 million (net of ASC 470-20 (formerly known as FSP No. APB 14-1) adjustment) of exchangeable senior notes due 2036 having a GAAP interest rate of 5.958% per annum (an effective rate of 3.787% per annum, excluding the effect of ASC 470-20) and an initial optional redemption date in 2013; (3) $815.3 million (net of discount and ASC 470-20 adjustment) of exchangeable senior notes due 2037 having a GAAP interest rate of 5.630% per annum (an effective rate of 3.462% per annum, excluding the effect of ASC 470-20) and an initial optional redemption date in 2012; (4) $669.0 million (net of discount and ASC 470-20 adjustment) of exchangeable senior notes due 2014 having a GAAP interest rate of 6.555% per annum (an effective rate of 4.037%, excluding the effect of ASC 470-20); and (5) $2.6 billion of property-specific mortgage debt having a GAAP weighted-average interest rate of 5.65% per annum and weighted-average term of 4.6 years. The table below summarizes our mortgage notes payable, our senior unsecured notes and our Unsecured Line of Credit at December 31, 2009 and December 31, 2008:

	December 31,	
	2009	**2008**
	(dollars in thousands)	
DEBT SUMMARY:		
Balance		
Fixed rate mortgage notes payable	$ 2,249,880	$ 2,375,150
Variable rate mortgage notes payable	393,421	285,492
Unsecured senior notes, net of discount	2,172,389	1,472,375
Unsecured exchangeable senior notes, net of discount and ASC 470-20 adjustment	1,904,081	1,859,867
Unsecured Line of Credit		100,000
Total	$ 6,719,771	$ 6,092,884
Percent of total debt:		
Fixed rate	94.15%	93.67%
Variable rate	5.85%	6.33%
Total	100.00%	100.00%
GAAP weighted average interest rate at end of period:		
Fixed rate	6.12%	6.15%
Variable rate	1.98%	3.62%
Total	5.87%	5.99%
Coupon/Stated weighted-average interest rate at end of period:		
Fixed rate	5.43%	5.43%
Variable rate	1.75%	3.07%
Total	5.21%	5.28%

The variable rate debt shown above bears interest based on various spreads over the London Interbank Offered Rate (LIBOR) or Eurodollar rates. As of December 31, 2009, the weighted average interest rate on our variable rate debt was LIBOR/Eurodollar plus 1.50% per annum.

Unsecured Line of Credit

On June 6, 2008, our Operating Partnership utilized an accordion feature under its Unsecured Line of Credit with a consortium of lenders to increase the total commitment under the Unsecured Line of Credit from $605.0 million to $923.3 million. On July 21, 2008, our Operating Partnership further increased the total commitment to $1.0 billion. All other material terms under the facility remain unchanged. Our Unsecured Line of Credit bears interest at a variable interest rate equal to Eurodollar plus 0.475% per annum and matures on August 3, 2010, with a provision for a one-year extension at our option, subject to certain conditions. There can be no assurance

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that we will be able to renew or replace the Unsecured Line of Credit upon maturity on favorable terms (including the lenders total commitment) or at all. The Unsecured Line of Credit is a recourse obligation of our Operating Partnership. Under the Unsecured Line of Credit, a facility fee equal to 0.125% per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in our Operating Partnership s unsecured debt ratings. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to us at a negotiated LIBOR-based rate.

Our ability to borrow under our Unsecured Line of Credit is subject to our compliance with a number of customary financial and other covenants on an ongoing basis, including:

a leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days;

a secured debt leverage ratio not to exceed 55%;

a fixed charge coverage ratio of at least 1.40;

an unsecured leverage ratio not to exceed 60%, however the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days;

a minimum net worth requirement;

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

limitations on permitted investments.

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

As of December 31, 2009, we had no borrowings and letters of credit totaling $10.2 million outstanding under the Unsecured Line of Credit, with the ability to borrow $989.8 million. As of February 19, 2010, we had no borrowings outstanding under the Unsecured Line of Credit.

Unsecured Senior Notes

The following summarizes the unsecured senior notes outstanding as of December 31, 2009 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
10 Year Unsecured Senior Notes	6.250%	6.381%	$ 750,000	January 15, 2013
10 Year Unsecured Senior Notes	6.250%	6.291%	175,000	January 15, 2013
12 Year Unsecured Senior Notes	5.625%	5.693%	300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
10 Year Unsecured Senior Notes	5.875%	5.967%	700,000	October 15, 2019
Total principal			2,175,000	
Net discount			(2,611)	
Total			$ 2,172,389	

(1) Yield on issuance date including the effects of discounts on the notes.
(2) No principal amounts are due prior to maturity.

On October 9, 2009, our Operating Partnership, BPLP, completed a public offering of $700.0 million in aggregate principal amount of its 5.875% senior notes due 2019. The notes were priced at 99.931% of the principal amount to yield 5.967% to maturity. The aggregate net proceeds to BPLP, after deducting underwriter discounts and offering expenses, were approximately $693.7 million. The notes mature on October 15, 2019, unless earlier redeemed by BPLP.

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Our unsecured senior notes are redeemable at our option, in whole or in part, at a redemption price equal to the greater of (1) 100% of their principal amount or (2) the sum of the present value of the remaining scheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus 35 basis points (or 25 basis points in the case of the $250 million of notes that mature on June 1, 2015 and 40 basis points in the case of the $700 million of notes that mature on October 15, 2019), in each case plus accrued and unpaid interest to the redemption date. The indenture under which our senior unsecured notes were issued contains restrictions on incurring debt and using our assets as security in other financing transactions and other customary financial and other covenants, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of 1.5, and (4) unencumbered asset value to be no less than 150% of our unsecured debt. As of December 31, 2009, we were in compliance with each of these financial restrictions and requirements.

BPLP s investment grade ratings on its unsecured senior notes are as follows:

Rating Organization	Rating
Moody s	Baa2 (stable)
Standard & Poor s	A- (negative)
FitchRatings	BBB (stable)

The security rating is not a recommendation to buy, sell or hold securities, as it may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

Unsecured exchangeable senior notes

The following summarizes the unsecured exchangeable senior notes outstanding as of December 31, 2009 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Exchange Rate	Principal Amount	First Optional Redemption Date by BPLP	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)	862,500	February 20, 2012	February 15, 2037
3.750% Exchangeable Senior Notes	3.750%	3.787%	10.0066(4)	450,000	May 18, 2013	May 15, 2036
Total principal				2,060,000		
Net discount				(15,529)		
ASC 470-20 (formerly known as FSP APB 14-1) Adjustment, net of accumulated amortization				(140,390)		
Total				$ 1,904,081		

(1) Yield on issuance date including the effects of discounts on the notes and excluding the effects of ASC 470-20 (formerly known as FSP No. APB 14-1).

(2)

The initial exchange rate is 8.5051 shares per $1,000 principal amount of the notes (or an initial exchange price of approximately $117.58 per share of our common stock). In addition, we entered into capped call transactions with affiliates of certain of the initial purchasers, which are intended to reduce the potential dilution upon future exchange of the notes. The capped call transactions are expected to have the effect of

increasing the effective exchange price to us of the notes from $117.58 to approximately $137.17 per share, representing an overall effective premium of approximately 40% over the closing price on August 13, 2008 of $97.98 per share of our common stock. The net cost of the capped call transactions was approximately $44.4 million.

(3) In connection with the special dividend of $5.98 per share of common stock declared on December 17, 2007, the exchange rate was adjusted from 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 our common stock.

(4) In connection with the special dividend of $5.98 per share of common stock declared on December 17, 2007, the exchange rate was adjusted from 9.3900 to 10.0066 shares per $1,000 principal amount of notes effective as of December 31, 2007, resulting in an exchange price of approximately $99.93 per share of our common stock.

Effective January 1, 2009, we adopted ASC 470-20 (formerly known as FSP No. APB 14-1) that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. See Note 8 of the Consolidated Financial Statements.

Mortgage Debt

The following represents the outstanding principal balances due under the mortgages notes payable at December 31, 2009:

Properties	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Fair Value Adjustment	Carrying Amount	Maturity Date
			(Dollars in thousands)			
599 Lexington Avenue	5.57%	5.41%	$ 750,000	$	$ 750,000(2)(3)	March 1, 2017
601 Lexington Avenue	7.19%	7.24%	466,150	885	467,035(4)(5)	May 11, 2011
Embarcadero Center Four	6.10%	7.02%	375,000		375,000(6)	December 1, 2016
South of Market	1.25%	1.48%	187,377		187,377(3)(7)	November 21, 2010
505 9th Street	5.73%	5.87%	129,843		129,843	November 1, 2017
Wisconsin Place Office	1.35%	1.59%	97,169		97,169(3)(8)	January 29, 2011
One Freedom Square	7.75%	5.34%	68,440	2,826	71,266(4)	June 30, 2012
New Dominion Tech Park, Bldg. Two	5.55%	5.58%	63,000		63,000(3)	October 1, 2014
Democracy Tower	2.00%	2.19%	58,875		58,875(3)(9)	December 19, 2010
202, 206 & 214 Carnegie Center	8.13%	8.22%	56,306		56,306	October 1, 2010
140 Kendrick Street	7.51%	5.25%	51,078	2,770	53,848(4)	July 1, 2013
New Dominion Tech. Park, Bldg. One	7.69%	7.84%	50,967		50,967	January 15, 2021
Reservoir Place	4.09%	4.34%	50,000		50,000(10)	July 30, 2014
1330 Connecticut Avenue	7.58%	4.74%	46,185	1,536	47,721(11)	February 26, 2011
Kingstowne Two and Retail	5.99%	5.61%	39,405	811	40,216(11)	January 1, 2016
10 and 20 Burlington Mall Road	7.25%	7.31%	33,680		33,680(12)	October 1, 2011
Sumner Square	7.35%	7.54%	25,495		25,495	September 1, 2013
Montvale Center	5.93%	6.07%	25,000		25,000(3)	June 6, 2012
Eight Cambridge Center	7.73%	7.74%	22,910		22,910	July 15, 2010
Kingstowne One	5.96%	5.68%	18,919	252	19,171(11)	May 5, 2013
University Place	6.94%	6.99%	18,422		18,422	August 1, 2021
Atlantic Wharf	N/A	N/A			(13)(14)	April 21, 2012
Total			$ 2,634,221	$ 9,080	$ 2,643,301	

(1) GAAP interest rate differs from the stated interest rate due to the inclusion of the amortization of financing charges, effects of hedging transactions and adjustments required by EITF 98-1. All adjustments related to EITF 98-1 are noted above.

(2) On December 19, 2006, we terminated the forward-starting interest rate swap contracts related to this financing and received approximately $10.9 million, which amount will reduce our interest expense for this mortgage over the term of the financing, resulting in an effective interest rate of 5.41% per annum for

the financing. The stated interest rate is 5.57% per annum. The mortgage loan requires interest only payments with a balloon payment due at maturity.

(3) The mortgage loan requires interest only payments with a balloon payment due at maturity.
(4) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon redemption of the outside members equity interest in the limited liability company that owns the property to reflect the fair value of the note.
(5) Formerly known as Citigroup Center
(6) On November 13, 2008, we closed on an eight-year, $375.0 million mortgage loan collateralized by this property. The mortgage loan bears interest at a fixed rate of 6.10% per annum. Under our interest rate hedging program, we will reclassify into earnings over the eight-year term of the loan as an increase in interest expense approximately $26.4 million (approximately $3.3 million per year) of the amounts recorded on our Consolidated Balance Sheets within Accumulated Other Comprehensive Loss resulting in an effective interest rate of 7.02% per annum.
(7) The construction financing bears interest at a variable rate equal to LIBOR plus 1.00% per annum and matures on November 21, 2010 with a, one year extension option, subject to certain conditions.
(8) The construction financing bears interest at a variable rate equal to LIBOR plus 1.10% per annum and matures on January 29, 2011 with two, one-year extension options, subject to certain conditions.
(9) The construction financing bears interest at a variable rate equal to LIBOR plus 1.75% per annum and matures on December 19, 2010 with two, one-year extension options, subject to certain conditions.
(10) The mortgage financing currently bears interest at a variable rate equal to Libor plus 3.85% per annum.
(11) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the assumed note.
(12) Includes outstanding indebtedness secured by 91 Hartwell Avenue.
(13) Formerly known as Russia Wharf.
(14) We have not drawn any amounts under our $215.0 million construction loan facility. The construction financing bears interest at a variable rate equal to LIBOR plus 3.00% per annum and matures on April 21, 2012 with two, one-year extension options, subject to certain conditions.

Contractual aggregate principal payments of mortgage notes payable at December 31, 2009 are as follows:

Year	Principal Payments (in thousands)
2010	$ 347,382
2011	646,378
2012	105,404
2013	101,263
2014	125,237
Thereafter	1,308,557

Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Our primary market risk results from our indebtedness, which bears interest at fixed and variable rates. The fair value of our debt obligations are affected by changes in the market interest rates. We manage our market risk by matching long-term leases with long-term, fixed-rate, non-recourse debt of similar duration. We continue to follow a conservative strategy of generally pre-leasing development projects on a long-term basis to creditworthy tenants in order to achieve the most favorable construction and permanent financing terms. Approximately 94% of our outstanding debt has fixed interest rates, which minimizes the interest rate risk through the maturity of such outstanding debt. We also manage our market risk by entering into hedging arrangements with financial institutions. Our primary objectives when undertaking hedging transactions and derivative positions is to reduce our floating rate exposure and to fix a portion of the interest rate for anticipated financing and refinancing transactions. This in turn, reduces the risks that the variability of cash flows imposes on variable rate debt. Our strategy mitigates us against future increases in interest rates.

At December 31, 2009, our outstanding variable rate debt based on LIBOR totaled approximately $393.4 million. At December 31, 2009, the interest rate on our variable rate debt was approximately 1.98%. If market interest rates on our variable rate debt had been 100 basis points greater, total interest expense would have increased approximately $3.9 million for the year ended December 31, 2009.

At December 31, 2009 our weighted average coupon/stated rate on all of our fixed and variable rate debt was 5.43% and 1.75%, respectively. The weighted-average coupon/stated rate for our senior notes and unsecured exchangeable debt was 5.93% and 3.64%, respectively.

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

Funds from Operations

Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of NAREIT, we calculate Funds from Operations, or FFO, by adjusting net income (loss) attributable to Boston Properties, Inc. (computed in accordance with GAAP, including non-recurring items) for gains (or losses) from sales of properties, real estate related depreciation and amortization, and after adjustment for unconsolidated partnerships, joint ventures and preferred distributions. FFO is a non-GAAP financial measure. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. Management generally considers FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. Amount represents our share, which was 86.57%, 85.49%, 85.32%, 84.40% and 83.74% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively, after allocation to the noncontrolling interests in the Operating Partnership.

In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO, as adjusted, which excludes the effects of the losses from early extinguishments of debt associated with the sales of real estate. Losses from early extinguishments of debt result when the sale of real estate encumbered by debt requires us to pay the extinguishment costs prior to the debt s stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, we view the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because we extinguished the debt in connection with the consummation of the sale transactions and we had no intent to extinguish the debt absent such transactions. We believe that adjusting FFO to exclude these losses more appropriately reflects the results of our operations exclusive of the impact of our sale transactions.

Although our FFO, as adjusted, clearly differs from NAREIT s definition of FFO, and may not be comparable to that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance because we believe that by excluding the effects of the losses from early extinguishments of debt associated with the sales of real estate, management and investors are presented with an indicator of our operating performance that more closely achieves the objectives of the real estate industry in presenting FFO.

Neither FFO, nor FFO, as adjusted, should be considered as an alternative to net income attributable to Boston Properties, Inc. (determined in accordance with GAAP) as an indication of our performance. Neither FFO nor FFO, as adjusted, represent cash generated from operating activities determined in accordance with GAAP and neither of these measures is a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO and FFO, as adjusted, should be compared with our reported net income attributable to Boston Properties, Inc. and considered in addition to cash flows in accordance with GAAP, as presented in our Consolidated Financial Statements.

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The following table presents a reconciliation of net income attributable to Boston Properties, Inc. to FFO and FFO, as adjusted, for the years ended December 31, 2009, 2008, 2007, 2006 and 2005:

	Year ended December 31,				
	2009	2008	2007	2006	2005
			(in thousands)		
Net income attributable to Boston Properties, Inc.	$ 231,014	$ 105,270	$ 1,310,106	$ 870,291	$ 438,292
Add:					
Cumulative effect of a change in accounting principle					5,043
Noncontrolling interests in property partnerships	2,778	1,997	84	(2,013)	(6,017)
Noncontrolling interest common units of the Operating Partnership	35,534	14,392	51,978	46,568	44,718
Noncontrolling interest in gains on sales of real estate and other assets common units of the Operating Partnership	1,579	4,838	140,547	113,432	30,658
Noncontrolling interest in discontinued operations common units of the Operating Partnership			40,237	2,977	12,402
Noncontrolling interest redeemable preferred units of the Operating Partnership	3,594	4,226	10,429	22,814	26,780
Less:					
Noncontrolling interest in cumulative effect of a change in accounting principle common units of the Operating Partnership					820
Gains on sales of real estate from discontinued operations			259,519		57,082
Income from discontinued operations			7,274	19,081	18,303
Gains on sales of real estate and other assets	11,760	33,340	929,785	719,826	182,542
Income (loss) from unconsolidated joint ventures	12,058	(182,018)	20,428	24,507	4,829
Income before income (loss) from unconsolidated joint ventures, gains on sales of real estate and other assets, discontinued operations, cumulative effect of a change in accounting principle and net income attributable to noncontrolling interests	250,681	279,401	336,375	290,655	288,300
Add:					
Real estate depreciation and amortization(1)	446,718	382,600	295,635	283,350	274,476
Income from discontinued operations			7,274	19,081	18,303
Income (loss) from unconsolidated joint ventures(2)	12,058	(182,018)	4,975	6,590	4,829
Less:					
Noncontrolling interests in property partnerships share of Funds from Operations	5,513	3,949	437	479	113
Noncontrolling interest redeemable preferred units of the Operating Partnership(3)	3,594	3,738	4,266	9,418	12,918
Funds from Operations attributable to the Operating Partnership	700,350	472,296	639,556	589,779	572,877
Add:					
Losses from early extinguishments of debt associated with the sales of real estate			2,675	31,444	11,041
Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	700,350	472,296	642,231	621,223	583,918
Less:					
Noncontrolling interest common units of the Operating Partnership s share of Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	94,078	68,508	94,298	96,902	94,946
Funds from Operations attributable to Boston Properties, Inc. after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	$ 606,272	$ 403,788	$ 547,933	$ 524,321	$ 488,972

Our percentage share of Funds from Operations basic	86.57%	85.49%	85.32%	84.40%	83.74%
Weighted average shares outstanding basic	131,050	119,980	118,839	114,721	111,274

(1) Real estate depreciation and amortization consists of depreciation and amortization from the Consolidated Statements of Operations of $321,681, $304,147, $286,030, $270,562 and $260,979, our share of unconsolidated joint venture real estate depreciation and amortization of $126,943, $80,303, $8,247, $9,087 and $8,554, and depreciation and amortization from discontinued operations of $0, $0, $2,948, $6,197 and $6,662, less corporate related depreciation and amortization of $1,906, $1,850, $1,590, $1,584 and $1,719 and adjustment of asset retirement obligations of $0, $0, $0, $912 and $0 for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

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(2) Includes non-cash impairment losses aggregating approximately $13.6 million and $188.3 million for the years ended December 31, 2009 and 2008, respectively, in accordance with the guidance in Accounting Standards Codification (ASC) 323 Investments-Equity Method and Joint Ventures (formerly known as APB No. 18 The Equity Method of Accounting for Investments in Common Stock) and ASC 360 Property, Plant and Equipment (formerly known as SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets). Excludes approximately $15.5 million related to our share of the gain on sale and related loss from early extinguishment of debt associated with the sale of Worldgate Plaza for the year ended December 31, 2007. Excludes approximately $17.9 million related to our share of the gain on sale and related loss from early extinguishment of debt associated with the sale of 265 Franklin Street for the year ended December 31, 2006.

(3) Excludes approximately $5.6 million, $12.2 million and $12.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, of income allocated to the holders of Series Two Preferred Units to account for their right to participate on an as-converted basis in the special dividends that followed previously completed sales of real estate.

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Reconciliation to Diluted Funds from Operations:

	For the years ended December 31,									
	2009		2008		2007		2006		2005	
	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)	Income (Numerator)	Shares/Units (Denominator)
Basic Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	$ 700,350	151,386	$ 472,296	140,336	$ 642,231	139,290	$ 621,223	135,923	$ 583,918	132,881
Effect of Dilutive Securities:										
Convertible Preferred Units(1)	3,594	1,461	3,738	1,461	4,266	1,674	9,418	3,629	12,918	5,163
Stock Options and other		462		1,319		1,941		2,356		2,285
Diluted Funds from Operations after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate	$ 703,944	153,309	$ 476,034	143,116	$ 646,497	142,905	$ 630,641	141,908	$ 596,836	140,329
Less: Noncontrolling interest common units of the Operating Partnership s share of diluted Funds from Operations	93,376	20,336	67,710	20,357	92,523	20,451	94,222	21,202	91,896	21,607
Diluted Funds from Operations attributable to Boston Properties, Inc. after supplemental adjustment to exclude losses from early extinguishments of debt associated with the sales of real estate(2)	$ 610,568	132,973	$ 408,324	122,759	$ 553,974	122,454	$ 536,419	120,706	$ 504,940	118,722

(1) Excludes approximately $5.6 million, $12.2 million and $12.1 million for the years ended December 31, 2007, 2006 and 2005, respectively, of income allocated to the holders of Series Two Preferred Units to account for their right to participate on an as-converted basis in the special dividends that followed previously completed sales of real estate.

(2) Our share of diluted Funds from Operations was 86.74%, 85.78%, 85.69%, 85.06% and 84.60% for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

Net Operating Income

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

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

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The following sets forth a reconciliation of NOI to net income attributable to Boston Properties, Inc. for the fiscal years 2005 through 2009.

	Years ended December 31,				
	2009	2008	2007	2006	2005
Net operating income	$ 957,547	$ 923,384	$ 888,425	$ 898,459	$ 896,449
Add:					
Development and management services	34,878	30,518	20,553	19,820	17,310
Interest and other	4,059	18,958	89,706	36,677	11,978
Income (loss) from unconsolidated joint ventures	12,058	(182,018)	20,428	24,507	4,829
Gains on sales of real estate and other assets	11,760	33,340	929,785	719,826	182,542
Income from discontinued operations			7,274	19,081	18,303
Gains on sales of real estate from discontinued operations			259,519		57,082
Noncontrolling interest in cumulative effect of a change in accounting principle common units of the Operating Partnership					820
Less:					
General and administrative	75,447	72,365	69,882	59,375	55,471
Interest expense	322,833	295,322	302,980	302,221	308,091
Depreciation and amortization	321,681	304,147	286,030	270,562	260,979
Loss from suspension of development	27,766				
Net derivative losses		17,021			
Losses (gains) from investments in securities	(2,434)	4,604			
Losses from early extinguishments of debt	510		3,417	32,143	12,896
Cumulative effect of a change in accounting principle					5,043
Noncontrolling interests in property partnerships	2,778	1,997	84	(2,013)	(6,017)
Noncontrolling interests common units of the Operating Partnership	35,534	14,392	51,978	46,568	44,718
Noncontrolling interest in gains on sales of real estate and other assets common units of the Operating Partnership	1,579	4,838	140,547	113,432	30,658
Noncontrolling interest in discontinued operations common units of the Operating Partnership			40,237	2,977	12,402
Noncontrolling interest redeemable preferred units of the Operating Partnership	3,594	4,226	10,429	22,814	26,780
Net income attributable to Boston Properties, Inc	$ 231,014	$ 105,270	$ 1,310,106	$ 870,291	$ 438,292

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Contractual Obligations

As of December 31, 2009, we were subject to contractual payment obligations as described in the table below.

	Payments Due by Period						
	Total	2010	2011	2012	2013	2014	Thereafter
	(Dollars in thousands)						
Contractual Obligations:							
Long-term debt							
Mortgage debt(1)	$ 3,326,628	$ 491,904	$ 759,251	$ 198,096	$ 187,457	$ 205,411	$ 1,484,509
Unsecured senior notes(1)	2,950,158	128,313	128,313	128,313	1,024,406	70,500	1,470,313
Exchangeable senior notes(1)(2)	2,287,960	68,769	68,769	912,671	483,477	754,274	
Unsecured line of credit(1)							
Ground leases	140,048	11,471	11,496	11,749	12,009	12,275	81,048
Tenant obligations(3)	158,237	149,343	4,195	3,080	628	834	157
Construction contracts on development projects	531,388	373,234	133,458	23,739	957		
Other Obligations	2,466	516	116	116	116	977	625
Total Contractual Obligations	$ 9,396,885	$ 1,223,550	$ 1,105,598	$ 1,277,764	$ 1,709,050	$ 1,044,271	$ 3,036,652

(1) Amounts include principal and interest payments.
(2) Amounts are included in the year in which the first optional redemption date occurs (or, in the case of the exchangeable notes due 2014, the year of maturity).
(3) Committed tenant-related obligations based on executed leases as of December 31, 2009 (tenant improvements and lease commissions).

We have various standing or renewable service contracts with vendors related to our property management. In addition, we have certain other utility contracts we enter into in the ordinary course of business that may extend beyond one year and that vary based on usage. These contracts are not included as part of our contractual obligations because they include terms that provide for cancellation with insignificant or no cancellation penalties. Contract terms are generally one year or less.

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Off-Balance Sheet Arrangements

Joint Ventures

We have investments in twelve unconsolidated joint ventures (including our investment in the Value-Added Fund) with our effective ownership interests ranging from 5% to 60%. Eleven of these ventures have mortgage indebtedness. We exercise significant influence over, but do not control, these entities and therefore they are presently accounted for using the equity method of accounting. See also Note 5 to the Consolidated Financial Statements. At December 31, 2009, the aggregate debt, including both our and our partners share, incurred by these ventures was approximately $3.2 billion. The table below summarizes the outstanding debt of these joint venture properties at December 31, 2009. In addition to other guarantees specifically noted in the table, we have agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of the loans.

Properties	Venture Ownership %	Stated Interest Rate	GAAP Interest Rate(1)	Stated Principal Amount	Fair Value Adjustment	Carrying Amount	Maturity Date
				(Dollars in thousands)			
General Motors Building:							
Secured 1st Mortgage	60%	5.95%	6.50%	$ 1,300,000	$ (49,111)	$ 1,250,889(2)(3)(4)	October 7, 2017
Mezzanine Loan	60%	6.02%	8.00%	306,000	(39,540)	266,460(2)(3)(5)	October 7, 2017
Partner Loans	60%	11.00%	11.00%	450,000		450,000(6)	June 9, 2017
125 West 55th Street:							
Secured 1st Mortgage	60%	5.75%	6.07%	200,000	(349)	199,651(2)(3)	March 1, 2010
Mezzanine Loan	60%	7.81%	10.82%	63,500	(219)	63,281(2)(3)	March 1, 2010
Two Grand Central Tower	60%	5.10%	6.20%	190,000	(1,114)	188,886(2)(3)	July 11, 2010
540 Madison Avenue	60%	5.20%	6.75%	119,400	(5,489)	113,911(2)(7)	July 11, 2013
Metropolitan Square	51%	8.23%	8.23%	124,386		124,386	May 1, 2010
Market Square North	50%	7.70%	7.74%	83,098		83,098	December 19, 2010
Eighth Avenue and 46th Street	50%	2.49%	2.49%	23,600		23,600(3)(8)	May 8, 2009(9)
Annapolis Junction	50%	1.44%	1.60%	42,698		42,698(3)(10)	September 12, 2010
Mountain View Tech. Park	39.5%	5.56%	5.89%	24,229		24,229(3)(11)(12)	March 31, 2011
Mountain View Research Park	39.5%	5.15%	5.40%	110,530		110,530(3)(11)(13)	May 31, 2011
901 New York Avenue	25%	5.19%	5.27%	165,242		165,242	January 1, 2015
One & Two Circle Star Way	25%	6.57%	6.67%	42,000		42,000(3)(11)(14)	September 1, 2013
300 Billerica Road	25%	5.69%	6.04%	7,500		7,500(3)(11)	January 1, 2016
Wisconsin Place Retail	5%	1.63%	1.83%	61,532		61,532(3)(15)	March 29, 2010
Total				$ 3,313,715	$ (95,822)	$ 3,217,893	

(1) GAAP interest rate differs from the stated interest rate due to the inclusion of the amortization of financing charges and adjustments required by EITF 98-1. All adjustments related to EITF 98-1 are noted above.
(2) In accordance with EITF 98-1, the principal amount and interest rate shown were adjusted upon acquisition of the property to reflect the fair value of the assumed note.
(3) The loan requires interest only payments with a balloon payment due at maturity.
(4) In connection with the assumption of the loan, we guaranteed the joint venture s obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of December 31, 2009, the maximum funding obligation under the guarantee was approximately $23.9 million. We earn a fee from the joint venture for providing the guarantee and have an agreement with our partners to reimburse the joint venture for their share of any payments made under the guarantee.
(5) Principal amount does not include the assumed mezzanine loan with an aggregate principal amount of $294.0 million and a stated rate of 6.02% per annum, as the venture acquired the lenders interest in this loan for a purchase price of approximately $263.1 million in cash.
(6) In connection with the capitalization of the joint venture, loans in an aggregate amount of $450.0 million were funded by the venture s partners on a pro-rata basis. Our share of the partner loans totaling $270.0 million has been reflected in Related Party Note Receivable on our Consolidated Balance Sheets.
(7) In connection with the assumption of the loan, we guaranteed the joint venture s obligation to fund tenant improvements and leasing commissions.
(8) The financing bears interest at a variable rate equal to LIBOR plus 2.25% per annum.

(9) An unconsolidated joint venture in which we own a 50% interest is the borrower of a $23.6 million mortgage financing collateralized by the land parcels at Eighth Avenue and 46th Street in New York City. We and our third-party joint venture partner each agreed to guarantee $11.8 million of the mortgage loan plus 50% of all other obligations agreed to by the borrower under the loan documents. The loan was scheduled to mature on May 8, 2009. However, because our partner is in discussions with the lender on a new credit facility, the lender has agreed that such loan amount need not be repaid pending finalization of the new credit facility. If our partner defaults on its obligation to contribute its share of the loan repayment amount, then we have the right to repay the entire loan amount, have the collateral released and proceed against our partner for reimbursement.

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(10) The construction financing bears interest at a variable rate equal to LIBOR plus 1.20% per annum and matures on September 12, 2010 with two, one-year extensions options, subject to certain conditions, subject to certain conditions. In addition, we have guaranteed the repayment of approximately $9.1 million of principal (as well as interest on the loan), which amount is subject to reduction and eventual elimination upon attaining certain debt service coverage ratios.
(11) This property is owned by the Value-Added Fund.
(12) Mortgage financing totals $26.0 million (of which approximately $24.2 million has been disbursed as of December 31, 2009). The mortgage bears interest at a variable rate of LIBOR plus 1.50% and matures on March 31, 2011 with two, one-year extension options, subject to certain conditions. The Value-Added Fund has entered into an interest rate swap contract to fix the one-month LIBOR index rate at 4.085% per annum on a notional amount of $24 million. The swap contract went into effect on June 12, 2008 and expires on March 31, 2011.
(13) Mortgage financing totals $120.0 million (of which $103.0 million was drawn at closing, $7.5 million was drawn to fund tenant and capital costs, with the remaining $9.5 million available to fund future tenant and capital costs). The mortgage bears interest at a variable rate of LIBOR plus 1.75% and matures on May 31, 2011 with two, one-year extension options, subject to certain conditions. The Value-Added Fund has guaranteed the payment of interest on the loan. The Value-Added Fund has entered into three interest rate swap contracts to fix the one-month LIBOR index rate at 3.63% per annum on an aggregate notional amount of $103 million. The swap contracts went into effect on June 2, 2008 and expire on April 1, 2011.
(14) The Value-Added Fund has guaranteed the payment of (1) an aggregate of approximately $5.0 million of unfunded tenant improvement costs and leasing commissions and (2) one year of real estate taxes.
(15) Amount represents outstanding construction financing under a $66.0 million loan commitment collateralized by the retail entity of Wisconsin Place. Wisconsin Place is a mixed-use development project consisting of office, retail and residential properties located in Chevy Chase, Maryland. The construction financing bears interest at a variable rate equal to LIBOR plus 1.375% per annum and matures on March 29, 2010 with two, one-year extension options, subject to certain conditions. In addition, we have guaranteed the repayment of approximately $825,000 of principal (as well as our share of interest on the loan, taxes and operating expenses), which amount is subject to reduction upon attaining a prescribed debt service coverage ratio.

Environmental Matters

It is our policy to retain independent environmental consultants to conduct or update Phase I environmental assessments (which generally do not involve invasive techniques such as soil or ground water sampling) and asbestos surveys in connection with our acquisition of properties. These pre-purchase environmental assessments have not revealed environmental conditions that we believe will have a material adverse effect on our business, assets, financial condition, results of operations or liquidity, and we are not otherwise aware of environmental conditions with respect to our properties that we believe would have such a material adverse effect. However, from time to time environmental conditions at our properties have required and may in the future require environmental testing and/or regulatory filings, as well as remedial action.

In February 1999, we (through a joint venture) acquired from Exxon Corporation a property in Massachusetts that was formerly used as a petroleum bulk storage and distribution facility and was known by the state regulatory authority to contain soil and groundwater contamination. We developed an office park on the property. We engaged a specially licensed environmental consultant to oversee the management of contaminated soil and groundwater that was disturbed in the course of construction. Under the property acquisition agreement, Exxon agreed to (1) bear the liability arising from releases or discharges of oil and hazardous substances which occurred at the site prior to our ownership, (2) continue monitoring and/or remediating such releases and discharges as necessary and appropriate to comply with applicable requirements, and (3) indemnify us for certain losses arising from preexisting site conditions. Any indemnity claim may be subject to various defenses, and there can be no assurance that the amounts paid under the indemnity, if any, would be sufficient to cover the liabilities arising from any such releases and discharges.

Environmental investigations at some of our properties and certain properties owned by our affiliates have identified groundwater contamination migrating from off-site source properties. In each case we engaged a licensed environmental consultant to perform the necessary investigations and assessments, and to prepare any required submittals to the regulatory authorities. In each case the environmental consultant concluded that the properties qualify under the regulatory program or the regulatory practice for a status which eliminates certain deadlines for conducting response actions at a site. We also believe that these properties qualify for liability relief under certain statutory provisions or regulatory practices regarding upgradient releases. Although we believe that the current or former owners of the upgradient source properties may bear responsibility for some or all of the

costs of addressing the identified groundwater contamination, we will take such further response actions (if any) that we deem necessary or advisable. Other than periodic testing at some of these properties, no such additional response actions are anticipated at this time.

Some of our properties and certain properties owned by our affiliates are located in urban, industrial and other previously developed areas where fill or current or historical uses of the areas have caused site contamination. Accordingly, it is sometimes necessary to institute special soil and/or groundwater handling procedures and/or include particular building design features in connection with development, construction and other property operations in order to achieve regulatory closure and/or ensure that contaminated materials are addressed in an appropriate manner. In these situations it is our practice to investigate the nature and extent of detected contamination and estimate the costs of required response actions and special handling procedures. We then use this information as part of our decision-making process with respect to the acquisition and/or development of the property. For example, we own a parcel in Massachusetts which was formerly used as a quarry/asphalt batching facility. Pre-purchase testing indicated that the site contained relatively low levels of certain contaminants. We have engaged a specially licensed environmental consultant to monitor environmental conditions at the site and prepare necessary regulatory submittals based on the results of an environmental risk characterization. A submittal has been made to the regulatory authorities in order to achieve regulatory closure at this site. The submittal included an environmental deed restriction that mandates compliance with certain protective measures in a portion of the site where low levels of residual soil contamination have been left in place in accordance with applicable laws. Development activities on the site are nearing completion and this work will be performed in accordance with the environmental deed restriction and other environmental requirements applicable to the site.

We expect that resolution of the environmental matters relating to the above will not have a material impact on our business, assets, financial condition, results of operations or liquidity. However, we cannot assure you that we have identified all environmental liabilities at our properties, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that such environmental liabilities arise.

Reclassifications and Adoption of New Accounting Pronouncements

Certain prior year amounts have been reclassified to conform to the current year presentation. In addition, certain prior year amounts have been revised as a result of the adoption on January 1, 2009 of (1) ASC 470-20 (formerly known as FSP No. APB 14-1) (See Note 8 of the Consolidated Financial Statements), (2) the guidance included in ASC 810 Consolidation (formerly known as SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160)) and ASC 480-10-S99 Distinguishing Liabilities from Equity (formerly known as EITF Topic No. D-98 Classification and Measurement of Redeemable Securities (Amended)) (See Note 11 of the Consolidated Financial Statements) and (3) the guidance included in ASC 260-10 Earnings Per Share (formerly known as FSP EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities) (See Note 15 of the Consolidated Financial Statements).

In April 2009, the FASB issued ASC 825-10-65 Transition Related to FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (ASC 825-10-65) (formerly known as FSP No. FAS 107-1 and APB 28-1, Interim Disclosures About Fair Value of Financial Instruments (FSP No. FAS 107-1)). ASC 825-10-65 amends guidance in ASC 825 Financial Instruments (formerly known as FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments) to require disclosures about fair-value of financial instruments for interim reporting periods of publicly-traded companies as well as in annual financial statements. ASC 825-65-10 also amends ASC 270 Interim Reporting (formerly known as APB Opinion No. 28, Interim Financial Reporting) to require those disclosures in summarized financial information at interim reporting periods. ASC 825-10-65 was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009 (See Note 2 of the Consolidated Financial Statements).

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In May 2009, the FASB issued ASC 855 Subsequent Events (ASC 855) (formerly known as SFAS No. 165 Subsequent Events (SFAS No. 165)), which establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before the financial statements are issued. ASC 855 was effective for interim or annual periods beginning after June 15, 2009. We have evaluated subsequent events through the time of filing these financial statements with the SEC on Form 10-K on February 25, 2010.

Newly Issued Accounting Standards

In June 2008, the FASB ratified the guidance included in ASC 815-40 Derivatives and Hedging (ASC 815-40) (formerly known as EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity s Own Stock (EITF No. 07-5)). The guidance included in ASC 815-40 requires entities to apply a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock. The guidance included in ASC 815-40 was effective on January 1, 2009. The adoption of the guidance included in ASC 815-40 did not have a material impact on us.

In April 2009, the FASB issued ASC 820-10-65-4 Transition Related to FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 820-10-65-4) (formerly known as FSP No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4)). ASC 820-10-65-4 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for the asset or liability have significantly decreased. ASC 820-10-65-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65-4 was effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65-4 did not have a material impact on our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167), which modifies the approach to determining the primary beneficiary of a variable interest entity (VIE) and requires companies to more frequently assess whether they must consolidate a VIE. SFAS No. 167 is effective on the first annual reporting period that begins after November 15, 2009. We are currently assessing the potential impact that the adoption of SFAS No. 167 will have on our financial statements.

In June 2009, the FASB issued SFAS No. 168, The *FASB Accounting Standards Codification* and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162 (SFAS No. 168), which establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. SFAS No. 168 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS No. 168 did not have a material impact on us.

Inflation

Substantially all of our leases provide for separate real estate tax and operating expense escalations over a base amount. In addition, many of our leases provide for fixed base rent increases or indexed increases. We believe that inflationary increases in costs may be at least partially offset by the contractual rent increases and operating expense escalations.

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Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

As of December 31, 2009, approximately $6.3 billion of our consolidated borrowings bore interest at fixed rates and approximately $393.4 million of our consolidated borrowings bore interest at variable rates, and therefore the fair value of these instruments is affected by changes in the market interest rates. As of December 31, 2009, the weighted-average interest rate on our variable rate debt was LIBOR/Eurodollar plus 1.50% (for an all in rate as of December 31, 2009 of 1.75%) per annum. The GAAP weighted average interest rate on the variable rate debt as of December 31, 2009 was 1.98% per annum. The table below does not include our unconsolidated joint venture debt. For a discussion concerning our unconsolidated joint venture debt, refer to Note 5 to the Consolidated Financial Statements and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Off-Balance Sheet Arrangements Joint Venture Indebtedness.

	2010	2011	2012	2013	2014	2015+	Total	Fair Value
				(dollars in thousands)				
				Secured debt				
Fixed Rate	$ 105,116	$ 551,814	$ 106,642	$ 101,068	$ 76,546	$ 1,308,694	$ 2,249,880	$ 2,225,828
Average Interest Rate	7.68%	7.02%	5.68%	6.03%	5.79%	5.98%	6.30%	
Variable Rate	246,252	97,169	345	827	48,828		$ 393,421	$ 389,271
				Unsecured debt				
Fixed Rate				$ 923,905	$	$ 1,248,484	$ 2,172,389	$ 2,318,868
Average Interest Rate					6.36%	5.74%	6.01%	
Variable Rate							$	$
				Unsecured exchangeable debt				
Fixed Rate(1)			$ 852,716	$ 450,000	$ 741,755		$ 2,044,471	$ 2,059,796
ASC 470-20 (formerly known as FSP No. APB 14-1) Adjustment	($41,195)	($43,912)	($29,793)	($23,052)	($2,438)		($140,390)	
Total Fixed Rate	($41,195)	($43,912)	$822,923	$426,948	$739,317		$1,904,081	
Average Interest Rate			5.63%	5.96%	6.56%		6.03%	
Variable Rate								
Total Debt	**$ 310,173**	**$ 605,071**	**$ 929,910**	**$ 1,452,748**	**$ 864,691**	**$ 2,557,178**	**$ 6,719,771**	**$ 6,993,763**

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

Additional disclosure about market risk is incorporated herein by reference from Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Market Risk.

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Item 8. ***Financial Statements and Supplementary Data***

BOSTON PROPERTIES, INC.

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All other schedules for which a provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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Management s Report on Internal Control over

Financial Reporting

Management of Boston Properties, Inc. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The Company s internal control over financial reporting is a process designed under the supervision of the Company s principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of the Company s 2009 fiscal year, management conducted assessments of the effectiveness of the Company s internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on these assessments, management has determined that the Company s internal control over financial reporting as of December 31, 2009 was effective.

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on our financial statements.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 100, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2009.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

of Boston Properties, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Boston Properties, Inc. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for certain convertible debt instruments (Note 8), noncontrolling interests (Note 11), and the calculation of earnings per share (Note 15) effective January 1, 2009.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 25, 2010

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BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2009	December 31, 2008
ASSETS		
Real estate, at cost:	$ 11,099,558	$ 10,625,207
Less: accumulated depreciation	(2,033,677)	(1,768,785)
Total real estate	9,065,881	8,856,422
Cash and cash equivalents	1,448,933	241,510
Cash held in escrows	21,867	21,970
Investment in securities	9,946	11,590
Tenant and other receivables (net of allowance for doubtful accounts of $4,125 and $4,006, respectively)	93,240	68,743
Related party note receivable	270,000	270,000
Accrued rental income (net of allowance of $2,645 and $15,440, respectively)	363,121	316,711
Deferred charges, net	294,395	325,369
Prepaid expenses and other assets	17,684	22,401
Investments in unconsolidated joint ventures	763,636	782,760
Total assets	$ 12,348,703	$ 10,917,476
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	$ 2,643,301	$ 2,660,642
Unsecured senior notes (net of discount of $2,611 and $2,625, respectively)	2,172,389	1,472,375
Unsecured exchangeable senior notes (net of discount of $15,529 and $21,101, respectively)	1,904,081	1,859,867
Unsecured line of credit		100,000
Accounts payable and accrued expenses	220,089	171,791
Dividends and distributions payable	80,536	97,162
Accrued interest payable	76,058	67,132
Other liabilities	127,538	173,750
Total liabilities	7,223,992	6,602,719
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, 138,958,910 and 121,259,555 issued and 138,880,010 and 121,180,655 outstanding in 2009 and 2008, respectively	1,389	1,212
Additional paid-in capital	4,373,679	3,559,841
Earnings in excess of dividends	95,433	154,953
Treasury common stock at cost, 78,900 shares in 2009 and 2008	(2,722)	(2,722)
Accumulated other comprehensive loss	(21,777)	(24,291)

Total stockholders equity attributable to Boston Properties, Inc.	4,446,002	3,688,993
Noncontrolling interests:		
Common units of the Operating Partnership	617,386	563,212
Property partnerships	5,671	6,900
Total equity	5,069,059	4,259,105
Total liabilities and equity	$ 12,348,703	$ 10,917,476

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,		
	2009	2008	2007
	(In thousands, except for per share amounts)		
Revenue			
Rental:			
Base rent	$ 1,185,431	$ 1,129,215	$ 1,084,308
Recoveries from tenants	200,899	204,732	184,929
Parking and other	66,597	68,105	64,982
Total rental revenue	1,452,927	1,402,052	1,334,219
Hotel revenue	30,385	36,872	37,811
Development and management services	34,878	30,518	20,553
Interest and other	4,059	18,958	89,706
Total revenue	1,522,249	1,488,400	1,482,289
Expenses			
Operating:			
Rental	501,799	488,030	455,840
Hotel	23,966	27,510	27,765
General and administrative	75,447	72,365	69,882
Interest	322,833	295,322	302,980
Depreciation and amortization	321,681	304,147	286,030
Loss from suspension of development	27,766		
Net derivative losses		17,021	
Losses (gains) from investments in securities	(2,434)	4,604	
Losses from early extinguishments of debt	510		3,417
Total expenses	1,271,568	1,208,999	1,145,914
Income before income (loss) from unconsolidated joint ventures, gains on sales of real estate and other assets, discontinued operations and net income attributable to noncontrolling interests	250,681	279,401	336,375
Income (loss) from unconsolidated joint ventures	12,058	(182,018)	20,428
Gains on sales of real estate and other assets	11,760	33,340	929,785
Income from continuing operations	274,499	130,723	1,286,588
Discontinued operations:			
Income from discontinued operations			7,274
Gains on sales of real estate from discontinued operations			259,519
Net income	274,499	130,723	1,553,381
Net income attributable to noncontrolling interests:			
Noncontrolling interests in property partnerships	(2,778)	(1,997)	(84)
Noncontrolling interest common units of the Operating Partnership	(35,534)	(14,392)	(51,978)
Noncontrolling interest in gains on sales of real estate and other assets common units of the Operating Partnership	(1,579)	(4,838)	(140,547)
Noncontrolling interest in discontinued operations common units of the Operating Partnership			(40,237)
Noncontrolling interest redeemable preferred units of the Operating Partnership	(3,594)	(4,226)	(10,429)
Net income attributable to Boston Properties, Inc.	$ 231,014	$ 105,270	$ 1,310,106
Basic earnings per common share attributable to Boston Properties, Inc.:			
Income from continuing operations	$ 1.76	$ 0.88	$ 9.07
Discontinued operations			1.91

Net income	$ 1.76	$ 0.88	$ 10.98
Weighted average number of common shares outstanding	131,050	119,980	118,839
Diluted earnings per common share attributable to Boston Properties, Inc.:			
Income from continuing operations	$ 1.76	$ 0.87	$ 8.92
Discontinued operations			1.88
Net income	$ 1.76	$ 0.87	$ 10.80
Weighted average number of common and common equivalent shares outstanding	131,512	121,299	120,780
Amounts attributable to Boston Properties, Inc.:			
Income from continuing operations	$ 231,014	$ 105,270	$ 1,083,550
Discontinued operations			226,556
Net income	$ 231,014	$ 105,270	$ 1,310,106

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock		Additional Paid-in Capital	Earnings in excess of Dividends	Treasury Stock, at cost	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
	Shares	Amount						
Equity, December 31, 2006	117,503	$ 1,175	$ 3,166,054	$ 104,811	$ (2,722)	$ (1,601)	$ 545,626	$ 3,813,343
Conversion of operating partnership units to Common Stock	1,342	13	143,297				(30,590)	112,720
Allocation of noncontrolling interest			282				(282)	
Allocation of noncontrolling interest redeemable preferred units							30,869	30,869
Allocated net income for the year				1,310,106			232,846	1,542,952
Dividends/distributions declared				(1,038,521)			(182,294)	(1,220,815)
Shares issued pursuant to stock purchase plan	6		1,241					1,241
Net activity from stock option and incentive plan	651	7	24,896				9,931	34,834
Equity component of unsecured exchangeable senior notes			80,788					80,788
Contributions from noncontrolling interests in property partnerships							4,311	4,311
Distributions to noncontrolling interests in property partnerships							(10,632)	(10,632)
Consolidation of noncontrolling interest in property partnership							19,588	19,588
Effective portion of interest rate contracts						(21,889)	(3,767)	(25,656)
Amortization of interest rate contracts						(181)	(31)	(212)
Equity, December 31, 2007	119,502	1,195	3,416,558	376,396	(2,722)	(23,671)	615,575	4,383,331
Conversion of operating partnership units to Common Stock	630	7	32,540				(10,906)	21,641
Allocation of noncontrolling interest			24,287				(24,287)	
Allocation of noncontrolling interest redeemable preferred units							488	488
Allocated net income for the year				105,270			21,227	126,497
Dividends/distributions declared				(326,713)			(57,608)	(384,321)
Shares issued pursuant to stock purchase plan	8		713					713
Net activity from stock option and incentive plan	1,041	10	38,156				21,630	59,796
Equity component of unsecured exchangeable senior notes			91,947					91,947
Issuances of noncontrolling interest common units							25,000	25,000
Distributions to noncontrolling interests in property partnerships							(20,902)	(20,902)
Capped call transaction costs			(44,360)					(44,360)
Effective portion of interest rate contracts						(622)	(105)	(727)
Amortization of interest rate contracts						2		2
Equity, December 31, 2008	121,181	1,212	3,559,841	154,953	(2,722)	(24,291)	570,112	4,259,105
Conversion of operating partnership units to Common Stock	139	1	3,969				(3,970)	
Allocation of noncontrolling interest			(42,490)				42,490	
Allocated net income for the year				231,014			39,891	270,905

Dividends/distributions declared				(290,534)			(46,574)	(337,108)
Sale of Common Stock, net of offering costs	17,250	173	841,737					841,910
Shares issued pursuant to stock purchase plan	12		620					620
Net activity from stock option and incentive plan	298	3	10,002				24,725	34,730
Distributions to noncontrolling interests in property partnerships							(4,007)	(4,007)
Amortization of interest rate contracts						2,514	390	2,904
Equity, December 31, 2009	138,880	$ 1,389	$ 4,373,679	$ 95,433	$ (2,722)	$ (21,777)	$ 623,057	$ 5,069,059

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

	For the year ended December 31,		
	2009	2008	2007
		(in thousands)	
Net income	$ 274,499	$ 130,723	$ 1,553,381
Other comprehensive income (loss):			
Net effective portion of interest rate contracts		(727)	(25,656)
Amortization of interest rate contracts	2,904	2	(212)
Other comprehensive income (loss)	2,904	(725)	(25,868)
Comprehensive income	277,403	129,998	1,527,513
Comprehensive income attributable to noncontrolling interests	(43,875)	(25,348)	(239,477)
Comprehensive income attributable to Boston Properties, Inc.	$ 233,528	$ 104,650	$ 1,288,036

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2009	2008 (in thousands)	2007
Cash flows from operating activities:			
Net income	$ 274,499	$ 130,723	$ 1,553,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	321,681	304,147	288,978
Non-cash portion of interest expense	55,664	39,323	28,766
Non-cash compensation expense	26,636	23,106	12,358
Non-cash rental revenue	(3,600)	(2,023)	
Losses (gains) on investments in securities	(2,434)	4,604	
Net derivative losses		17,021	
Losses from early extinguishments of debt	10		838
Loss from suspension of development	27,766		
(Income) loss from unconsolidated joint ventures	(12,058)	182,018	(20,428)
Distributions of net cash flow from operations of unconsolidated joint ventures	12,676	9,589	7,157
Gains on sales of real estate and other assets	(11,760)	(33,340)	(1,189,304)
Change in assets and liabilities:			
Cash held in escrows	103	3,548	(2,564)
Tenant and other receivables, net	1,844	2,663	(1,341)
Accrued rental income, net	(46,410)	(20,001)	(38,303)
Prepaid expenses and other assets	4,717	(2,642)	10,686
Accounts payable and accrued expenses	14,848	5,762	3,833
Accrued interest payable	8,926	12,645	7,046
Other liabilities	(9,452)	(54,023)	5,318
Tenant leasing costs	(46,280)	(57,809)	(34,767)
Total adjustments	342,877	434,588	(921,727)
Net cash provided by operating activities	617,376	565,311	631,654
Cash flows from investing activities:			
Acquisitions/additions to real estate	(442,844)	(580,377)	(1,134,870)
Investments in securities			(22,584)
Proceeds from redemptions of investments in securities	4,078	14,697	
Net investments in unconsolidated joint ventures	(7,835)	(896,027)	(7,790)
Cash recorded upon consolidation			3,232
Net proceeds from the sale/financing of real estate placed in escrow			(161,321)
Net proceeds from the sale/financing of real estate released from escrow		161,321	
Issuance of note receivable		(270,000)	
Proceeds from note receivable		123,000	
Net proceeds from the sales of real estate and other assets		127,307	1,897,988
Net cash provided by (used in) investing activities	(446,601)	(1,320,079)	574,655

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2009	2008	2007
		(in thousands)	
Cash flows from financing activities:			
Borrowings on unsecured line of credit		1,391,000	260,000
Repayments of unsecured line of credit	(100,000)	(1,291,000)	(260,000)
Repayments of mortgage notes payable	(125,238)	(603,054)	(1,196,618)
Proceeds from mortgage notes payable	107,929	537,569	1,097,369
Proceeds from unsecured exchangeable senior notes		647,046	759,575
Proceeds from unsecured senior notes	699,517		
Proceeds from real estate financing transactions			1,610
Payments on real estate financing transactions		(6,208)	(10,610)
Advance from joint venture partners		30,000	
Repayment of advance from joint venture partners		(30,000)	
Dividends and distributions	(357,328)	(1,235,767)	(1,143,470)
Proceeds from equity transactions	850,624	37,410	23,479
Equity component of unsecured exchangeable senior notes		91,947	80,788
Capped call transaction costs		(44,360)	
Contributions from (distributions to) noncontrolling interest holders, net	(4,007)	(20,909)	4,304
Repayment of note payable	(25,000)		
Redemption of noncontrolling interest			(35,625)
Deferred financing costs	(9,849)	(14,317)	(5,978)
Net cash provided by (used in) financing activities	1,036,648	(510,643)	(425,176)
Net increase (decrease) in cash and cash equivalents	1,207,423	(1,265,411)	781,133
Cash and cash equivalents, beginning of the year	241,510	1,506,921	725,788
Cash and cash equivalents, end of the year	$ 1,448,933	$ 241,510	$ 1,506,921
Supplemental disclosures:			
Cash paid for interest	$ 307,059	$ 289,640	$ 300,490
Interest capitalized	$ 48,816	$ 46,286	$ 33,322
Non-cash investing and financing activities:			
Additions to real estate included in accounts payable	$ 36,789	$ 18,075	$ 3,827
Mortgage notes payable assumed in connection with the acquisition of real estate	$	$	$ 65,224
Real estate recorded upon consolidation	$	$	$ 120,213
Mortgage notes payable recorded upon consolidation	$	$	$ 79,064
Noncontrolling interest recorded upon consolidation	$	$	$ 19,588
Dividends and distributions declared but not paid	$ 80,536	$ 97,162	$ 944,870
Issuance of OP Units in connection with the acquisition of real estate	$	$ 15,000	$

Issuance of OP Units in connection with an investment in an unconsolidated joint venture	$	$ 10,000	$
Conversions of noncontrolling interests to Stockholders Equity	$ 3,970	$ 10,906	$ 30,590
Basis adjustment in connection with conversions of noncontrolling interests to Stockholders Equity	$	$ 21,641	$ 112,721
Note receivable issued in connection with the transfer of real estate	$	$ 123,000	$
Issuance of restricted securities to employees and directors	$ 22,964	$ 43,536	$ 17,658

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

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

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 December 31, 2009 owned an approximate 86.0% (84.4% at December 31, 2008) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as common units of partnership interest (also referred to as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units). In addition, in February 2008, the Company issued LTIP Units in connection with the granting to employees of 2008 outperformance awards (also referred to as 2008 OPP Units). Because the rights, preferences and privileges of 2008 OPP Units differ from other LTIP Units granted to employees as part of the annual compensation process, unless specifically noted otherwise, all references to LTIP Units exclude 2008 OPP Units. For a complete description of the terms of the 2008 OPP Units (See Note 17).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company (Common Stock). In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 17).

At December 31, 2009, there was one series of Preferred Units outstanding (i.e., Series Two Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be converted into OP Units at the election of the holder thereof or the Operating Partnership in accordance with the amendment to the partnership agreement (See Note 11).

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

Properties

At December 31, 2009, the Company owned or had interests in a portfolio of 146 commercial real estate properties (147 properties at December 31, 2008) (the Properties) aggregating approximately 50.5 million net rentable square feet (approximately 49.8 million net rentable square feet at December 31, 2008), including five properties under construction totaling approximately 2.0 million net rentable square feet and structured parking for approximately 37,940 vehicles containing approximately 12.8 million square feet. At December 31, 2009, the Properties consist of:

140 office properties, including 120 Class A office properties (including three properties under construction) and 20 Office/Technical properties;

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

one hotel;

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 s investments through the Value-Added Fund are not included in its portfolio information or any other portfolio level statistics. At December 31, 2009, 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. Net rentable square feet amounts are unaudited.

Basis of Presentation

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.

2. Summary of Significant Accounting Policies

Reclassifications and Adoption of New Accounting Pronouncements

Certain prior year amounts have been reclassified to conform to the current year presentation. In addition, certain prior year amounts have been revised as a result of the adoption on January 1, 2009 of (1) Accounting Standards Codification (ASC) 470-20 Debt with Conversion and Other Options (ASC 470-20) (formerly known as FASB Staff Position (FSP) No. APB 14-1 Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP No. APB 14-1)) (See Note 8), (2) the guidance included in ASC 810 Consolidation (ASC 810) (formerly known as SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160)) and ASC 480-10-S99 Distinguishing Liabilities from Equity (ASC 480-10-S99) (formerly known as EITF Topic No. D-98 Classification and Measurement of Redeemable Securities (Amended)) (See Note 11) and (3) the guidance included in ASC 260-10 Earnings Per Share (ASC 260-10) (formerly known as FSP EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-06-1)) (See Note 15).

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Real Estate

Upon acquisitions of real estate, the Company assesses the fair value of acquired tangible and intangible assets (including land, buildings, tenant improvements, above- and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with guidance included in Accounting Standards Codification (ASC) 805 Business Combinations (ASC 805) (formerly known as Statement of Financial Accounting Standards (SFAS) No. 141(R) (SFAS No. 141(R))), and allocates the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings as if vacant. The Company assesses and considers fair value based on estimated cash flow projections that utilize discount and/or capitalization rates that it deems appropriate, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. The Company also considers an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenant s credit quality and expectations of lease renewals. Based on its acquisitions to date, the Company s allocation to customer relationship intangible assets has been immaterial.

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

The Company reviews its long-lived assets used in operations for impairment following the end of each quarter and when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such criteria are present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used, as defined by ASC 360 Property, Plant and Equipment (ASC 360) (formerly known as SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144)) are considered on an undiscounted basis to determine whether an asset has been impaired, the Company s established strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If the Company s strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If the Company determines that impairment has occurred, the affected assets must be reduced to their fair value.

ASC 360 (formerly known as SFAS No. 144) requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

significant continuing involvement following the sale. The components of the property s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). The Company generally considers assets to be held for sale when the transaction has been approved by the Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets, and the asset is written down to the lower of carrying value or fair market value.

Real estate is stated at depreciated cost. A variety of costs are incurred in the acquisition, development and leasing of properties. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Effective January 1, 2009, under the provisions of ASC 805 (formerly known as SFAS No. 141(R)), the Company was required to expense costs associated with the acquisition of real property such as legal, due diligence and other closing related costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, internal wages, property taxes, insurance, and other project costs incurred during the period of development. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project commences and capitalization begins, and when a development project is substantially complete and held available for occupancy and capitalization must cease, involves a degree of judgment. The Company s capitalization policy on development properties is guided by ASC 835-20 Capitalization of Interest and ASC 970 Real Estate General (formerly known as SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Projects). The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs necessary to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. The Company begins the capitalization of costs during the pre-construction period which it defines as activities that are necessary to the development of the property. The Company considers a construction project as substantially completed and held available for occupancy upon the completion of tenant improvements, but no later than one year from cessation of major construction activity. The Company ceases capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and capitalizes only those costs associated with the portion under construction, or (3) if activities necessary for the development of the property have been suspended. Interest costs capitalized for the years ended December 31, 2009, 2008 and 2007 were $48.8 million, $46.3 million and $33.3 million, respectively. Salaries and related costs capitalized for the years ended December 31, 2009, 2008 and 2007 were $7.9 million, $7.8 million and $6.9 million, respectively.

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

The Company computes depreciation and amortization on properties using the straight-line method based on estimated useful asset lives. In accordance with ASC 805 (formerly known as SFAS No. 141(R)), the Company allocates the acquisition cost of real estate to land, building, tenant improvements, acquired above- and below-market leases, origination costs and acquired in-place leases based on an assessment of their fair value and depreciates or amortizes these assets (or liabilities) over their useful lives. The amortization of acquired above- and below-market leases and acquired in-place leases is recorded as an adjustment to revenue and depreciation and amortization, respectively, in the Consolidated Statements of Operations.

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures, and equipment	3 to 7 years

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments with maturities of three months or less from the date of purchase. The majority of the Company s cash and cash equivalents are held at major commercial banks which may at times exceed the Federal Deposit Insurance Corporation limit of $250,000. The Company has not experienced any losses to date on its invested cash.

Cash Held in Escrows

Escrows include amounts established pursuant to various agreements for security deposits, property taxes, insurance and other costs.

Investment in Securities

The Company accounts for investments in trading securities at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. The designation of trading securities is generally determined at acquisition. During the year ended December 31, 2009 and 2008, investment in securities is comprised of an investment in an unregistered money market fund and investments in an account associated with the Company s deferred compensation plan (See Note 16). In December 2007, the unregistered money market fund suspended cash redemptions by investors; investors could elect in-kind redemptions of the underlying securities or maintain their investment in the fund and receive distributions as the underlying securities matured or were liquidated by the fund sponsor. As a result, the Company retained this investment for a longer term than originally intended, and the valuation of the Company s investment was subject to changes in market conditions. Because interests in this fund were valued at less than their $1.00 par value, the Company recognized gains (losses) of approximately $0.2 million, $(1.4) million and $(0.3) million on its investment during the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, the Company no longer had investments in this unregistered money market fund.

The Company also maintains a deferred compensation plan that is designed to allow officers of the Company to defer a portion of their current income on a pre-tax basis and receive a tax-deferred return on these deferrals. The Company s obligation under the plan is that of an unsecured

promise to pay the deferred compensation to the plan participants in the future. At December 31, 2009 and 2008, the Company has funded approximately $9.9 million and $6.6 million, respectively, into a separate account, which is not restricted as to its use. The Company recognized gains (losses) of approximately $2.2 million, $(3.2) million and $0.3 million on its investments in the account associated with the Company s deferred compensation plan during the years ended December 31, 2009, 2008 and 2007, respectively.

Tenant and other receivables

Tenant and other accounts receivable, other than accrued rents receivable, are expected to be collected within one year.

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Charges

Deferred charges include leasing costs and financing fees. Leasing costs include an allocation for acquired intangible in-place lease values and direct and incremental fees and costs incurred in the successful negotiation of leases, including brokerage, legal, internal leasing employee salaries and other costs which have been deferred and are being amortized on a straight-line basis over the terms of the respective leases. Internal leasing salaries and related costs capitalized for the years ended December 31, 2009, 2008 and 2007 were $3.3 million, $4.4 million and $4.1 million, respectively. External fees and costs incurred to obtain long-term financing have been deferred and are being amortized over the terms of the respective loans on a basis that approximates the effective interest method and are included with interest expense. Unamortized financing and leasing costs are charged to expense upon the early repayment or significant modification of the financing or upon the early termination of the lease, respectively. Fully amortized deferred charges are removed from the books upon the expiration of the lease or maturity of the debt.

Investments in Unconsolidated Joint Ventures

Except for ownership interests in variable interest entities for which the Company is the primary beneficiary, the Company accounts for its investments in joint ventures under the equity method of accounting because it exercises significant influence over, but does not control, these entities. The Company s judgment with respect to its level of influence or control of an entity and whether it is the primary beneficiary of a variable interest entity involves the consideration of various factors including the form of the Company s ownership interest, its representation in the entity s governance, the size of its investment (including loans), estimates of future cash flows, its ability to participate in policy making decisions and the rights of the other investors to participate in the decision making process and to replace the Company as manager and/or liquidate the venture, if applicable. The Company s assessment of its influence or control over an entity affects the presentation of these investments in the Company s consolidated financial statements.

These investments are recorded initially at cost, as Investments in Unconsolidated Joint Ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated joint ventures over the life of the related asset. Under the equity method of accounting, the net equity investment of the Company is reflected within the Consolidated Balance Sheets, and the Company s share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses, however, the Company s recognition of joint venture income or loss generally follows the joint venture s distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, the Company consolidates those in which it is the primary beneficiary. The Company s investments in unconsolidated joint ventures are reviewed for impairment periodically and the Company records impairment charges when events or circumstances change indicating that a decline in the fair values below the carrying values has occurred and such decline is other-than-temporary. The ultimate realization of the investment in unconsolidated joint ventures is dependent on a number of factors, including the performance of each investment and market conditions. The Company will record an impairment charge if it determines that a decline in the value of an investment in an unconsolidated joint venture is other than temporary.

To the extent that the Company contributes assets to a joint venture, the Company s investment in the joint venture is recorded at the Company s cost basis in the assets that were contributed to the joint venture. To the extent that the Company s cost basis is different than the basis reflected

at the joint venture level, the basis difference is amortized over the life of the related asset and included in the Company s share of equity in net

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

income of the joint venture. In accordance with the provisions of ASC 970-323 Investments Equity Method and Joint Ventures (ASC 970-323) (formerly Statement of Position 78-9 Accounting for Investments in Real Estate Ventures (SOP 78-9)), the Company will recognize gains on the contribution of real estate to joint ventures, relating solely to the outside partner s interest, to the extent the economic substance of the transaction is a sale.

Equity Offering Costs

Underwriting commissions and offering costs have been reflected as a reduction of additional paid-in capital.

Treasury Stock

The Company s share repurchases are reflected as treasury stock utilizing the cost method of accounting and are presented as a reduction to consolidated stockholders equity.

Dividends

Earnings and profits, which determine the taxability of dividends to stockholders, will differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of gains on the sale of real property, revenue and expense recognition, compensation expense, and in the estimated useful lives and basis used to compute depreciation.

The tax treatment of common dividends per share for federal income tax purposes is as follows:

	For the year ended December 31,					
	2009		2008		2007	
	Per Share	%	Per Share	%	Per Share	%
Ordinary income	$ 2.15	90.93%	$ 2.55	51.83%	$ 2.03	26.15%
Capital gain income					5.75	73.85%
Return of capital	0.21	9.07%	2.37	48.17%		
Total	$ 2.36	100.00%	$ 4.92(1)	100.00%	$ 7.78(1)(2)	100.00%

(1) Includes the special dividend of $5.98 per common share paid on January 30, 2008 of which approximately $3.40 per common share is allocable to 2007 and approximately $2.58 is allocable to 2008.
(2) Includes the special dividend of $5.40 per common share paid on January 30, 2007 of which approximately $3.66 per common share is allocable to 2006 and approximately $1.74 is allocable to 2007.

Revenue Recognition

Contractual rental revenue is reported on a straight-line basis over the terms of the respective leases. The impact of the straight-line rent adjustment increased revenue by approximately $42.2 million, $24.5 million and $39.1 million for the years ended December 31, 2009, 2008 and 2007, respectively, as the revenue recorded exceeded amounts billed. The straight-line rent adjustment for the year ended December 31, 2008 includes an approximately $21.0 million decrease due to the establishment of reserves for the full amount of the accrued straight-line rent balances associated with two of the Company s leases in New York City. In accordance with ASC 805 (formerly SFAS No. 141(R)), the Company recognizes rental revenue of acquired in-place above- and below-market leases at their fair values over the terms of the respective leases. The impact of the acquired

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in-place above- and below-market leases increased revenue by approximately $4.2 million, $5.4 million and $5.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. Accrued rental income, as reported on the Consolidated Balance Sheets, represents cumulative rental income earned in excess of rent payments received pursuant to the terms of the individual lease agreements. The Company maintains an allowance against accrued rental income for future potential tenant credit losses. The credit assessment is based on the estimated accrued rental income that is recoverable over the term of the lease. The Company also maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required rent payments. The computation of this allowance is based on the tenants payment history and current credit status, as well as certain industry or geographic specific credit considerations. If the Company s estimates of collectibility differ from the cash received, then the timing and amount of the Company s reported revenue could be impacted. The credit risk is mitigated by the high quality of the Company s existing tenant base, reviews of prospective tenants risk profiles prior to lease execution and consistent monitoring of the Company s portfolio to identify potential problem tenants.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs are recognized as revenue in the period during which the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with ASC 605-45 Principal Agent Considerations (ASC 605-45) (formerly known as Emerging Issues Task Force, or EITF, Issue 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent, or (Issue 99-19)). ASC 605-45 requires that these reimbursements be recorded on a gross basis, as the Company is generally the primary obligor with respect to purchasing goods and services from third- party suppliers, has discretion in selecting the supplier and has credit risk. The Company also receives reimbursement of payroll and payroll related costs from third parties which the Company reflects on a net basis in accordance with ASC 605-45.

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

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

Gains on sales of real estate are recognized pursuant to the provisions of ASC 360-20 Real Estate Sales (ASC 360-20) (formerly known as SFAS No. 66, Accounting for Sales of Real Estate (SFAS No. 66)). The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, the Company defers some or all of the gain recognition and accounts for the continued operations of the property by applying the finance, leasing, profit sharing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income available to common shareholders, as adjusted for unallocated earnings (if any) of certain securities issued by the Operating Partnership, by the weighted average number of shares of Common Stock outstanding during the year. Diluted EPS reflects the potential dilution that could occur from shares issuable under stock-based compensation plans, including upon the exercise of stock options, and conversion of the noncontrolling interests in the Operating Partnership.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, marketable securities, escrows, receivables, accounts payable, accrued expenses and other assets and liabilities are reasonable estimates of their fair values because of the short maturities of these instruments.

In April 2009, the FASB issued ASC 825-10-65 Transition Related to FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (ASC 825-10-65) (formerly known as FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP No. FAS 107-1)). ASC 825-10-65 requires disclosures about fair-value of financial instruments for interim reporting periods of publicly-traded companies as well as in annual financial statements. ASC 825-10-65 requires those disclosures in summarized financial information at interim reporting periods. ASC 825-10-65 was effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 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 estimation of a market spread 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 estimates, the actual fair value 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 December 31, 2009 (in thousands):

	Carrying Amount	Estimated Fair Value
Mortgage notes payable	$ 2,643,301	$ 2,615,099
Unsecured senior notes	2,172,389	2,318,868
Unsecured exchangeable senior notes	1,904,081 (1)	2,059,796
Total	$ 6,719,771	$ 6,993,763

(1) Includes the net impact of ASC 470-20 (formerly known as FSP No. APB 14-1) totaling approximately $140.4 million (See Note 8).

Derivative Instruments and Hedging Activities

Derivative instruments and hedging activities require management to make judgments on the nature of its derivatives and their effectiveness as hedges. These judgments determine if the changes in fair value of the derivative instruments are reported in the consolidated statements of operations as a component of net income or as a component of comprehensive income and as a component of equity on the consolidated balance sheets. While management believes its judgments are reasonable, a change in a derivative s effectiveness as a hedge could materially affect expenses, net income and equity. The Company recognized net derivative losses of approximately $17.0 million for the year ended December 31, 2008 within the caption Net Derivative Losses in the Consolidated Statements of Operations.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), commencing with its taxable year ended December 31, 1997. As a

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

result, the Company generally will not be subject to federal corporate income tax on its taxable income that is distributed to its stockholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its annual taxable income. The Company s policy is to distribute at least 100% of its taxable income. Accordingly, the only provision for federal income taxes in the accompanying consolidated financial statements relates to the Company s consolidated taxable REIT subsidiaries. The Company s taxable REIT subsidiaries did not have significant tax provisions or deferred income tax items.

The Company owns a hotel property which is managed through a taxable REIT subsidiary. The hotel taxable REIT subsidiary, a wholly owned subsidiary of the Operating Partnership, is the lessee pursuant to the lease for the hotel property. As lessor, the Operating Partnership is entitled to a percentage of gross receipts from the hotel property. Marriott International, Inc. continues to manage the hotel properties under the Marriott name and under terms of the existing management agreements. In connection with the restructuring, the revenue and expenses of the hotel property are being reflected in the Company s Consolidated Statements of Operations. The hotel taxable REIT subsidiary is subject to tax at the federal and state level and, accordingly, the Company has recorded a tax provision in the Company s Consolidated Statements of Operations for the years ended December 31, 2009, 2008 and 2007.

The net difference between the tax basis and the reported amounts of the Company s assets and liabilities is approximately $1.4 billion and $1.2 billion as of December 31, 2009 and 2008, respectively, which is primarily related to the difference in basis of contributed property and accrued rental income.

Certain entities included in the Company s consolidated financial statements are subject to certain state and local taxes. These taxes are recorded as operating expenses in the accompanying consolidated financial statements.

The following reconciles GAAP net income attributable to Boston Properties, Inc. to taxable income:

	For the year ended December 31,		
	2009	2008	2007
		(in thousands)	
Net income attributable to Boston Properties, Inc.	$ 231,014	$ 105,270	$ 1,310,106
Straight-line rent adjustments	(38,287)	(20,432)	(36,988)
Book/Tax differences from depreciation and amortization	61,366	78,047	41,783
Book/Tax differences on gains/losses from capital transactions	(10,111)	(28,502)	(282,521)
Book/Tax differences from stock-based compensation	15,966	(19,300)	(44,277)
Deemed dividend to convertible debt holders			(59,841)
Impairment loss on investments in unconsolidated joint ventures	6,374	161,000	
Other book/tax differences, net	492	33,410	(4,201)
Taxable income	$ 266,814	$ 309,493	$ 924,061

Stock-based employee compensation plans

At December 31, 2009, the Company has a stock-based employee compensation plan. Effective January 1, 2005, the Company adopted early ASC 718 Compensation Stock Compensation (ASC 718) (formerly SFAS No. 123 (revised) (SFAS No. 123R), Share-Based Payment), whic revised the fair value based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarified previous guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates include such items as depreciation and allowances for doubtful accounts. Actual results could differ from those estimates.

3. Real Estate

Real estate consisted of the following at December 31 (in thousands):

	2009	2008
Land	$ 1,983,064	$ 1,976,489
Land held for future development	718,525	228,300
Buildings and improvements	6,888,421	6,699,191
Tenant improvements	922,224	862,315
Furniture, fixtures and equipment	23,679	22,929
Construction in progress	563,645	835,983
Total	11,099,558	10,625,207
Less: Accumulated depreciation	(2,033,677)	(1,768,785)
	$ 9,065,881	$ 8,856,422

Development

On January 16, 2009, the Company acquired the development rights for the site at 17 Cambridge Center in Cambridge, Massachusetts for approximately $11.4 million. On November 6, 2009, the Company acquired the land parcel at 17 Cambridge Center in Cambridge, Massachusetts for a gross purchase price of approximately $6.0 million.

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 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. During the year ended December 31, 2009, the Company recognized a loss of approximately $27.8 million related to the suspension of development (See Note 22).

On April 1, 2009, the Company placed in-service One Preserve Parkway, an approximately 183,000 net rentable square foot Class A office property located in Rockville, Maryland. The property is 65% leased.

On May 31, 2009, a consolidated joint venture in which the Company has a 66.67% interest placed in-service the Offices at Wisconsin Place, an approximately 299,000 net rentable square foot Class A office property located in Chevy Chase, Maryland. The property is 91% leased.

On August 1, 2009, the Company placed in-service Democracy Tower, an approximately 235,000 net rentable square foot Class A office property located in Reston, Virginia. The property is 100% leased.

On October 9, 2009, the Company placed in-service 701 Carnegie Center, an approximately 120,000 net rentable square foot Class A office property located in Princeton, New Jersey. The property is 100% leased.

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 is being recognized over the project construction period generally based on the percentage of total project costs incurred to estimated total project costs. As a result, the Company recognized a gain on sale during the year ended December 31, 2009 of approximately $11.8 million. The Company has recognized a cumulative gain on sale of approximately $21.7 million.

4. Deferred Charges

Deferred charges consisted of the following at December 31, (in thousands):

	2009	2008
Leasing costs (and lease related intangibles)	$ 399,302	$ 416,299
Financing costs	76,915	67,594
	476,217	483,893
Less: Accumulated amortization	(181,822)	(158,524)
	$ 294,395	$ 325,369

5. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consists of the following at December 31, 2009:

Entity	Properties	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%(1)
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(2)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	23.9%(3)
Wisconsin Place Retail LLC	Wisconsin Place Retail	5.0%
Eighth Avenue and 46th Street Entities	Eighth Avenue and 46th Street	50.0%(4)
Boston Properties Office Value-Added Fund, L.P.	300 Billerica Road, One & Two Circle Star Way and Mountain View Research and Technology Parks	36.9%(2)(5)

Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(6)
767 Venture, LLC	The General Motors Building	60.0%(1)
2 GCT Venture LLC	Two Grand Central Tower	60.0%(1)
540 Madison Venture LLC	540 Madison Avenue	60.0%(1)
125 West 55th Street Venture LLC	125 West 55th Street	60.0%(1)

(1) The Company has determined that these entities are not VIEs and that its joint venture partners have substantive participating rights with respect to the assets and operations of the properties, pursuant to the joint venture agreements.

(2) The Company s economic ownership can increase based on the achievement of certain return thresholds.

(3) 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.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) This property is not in operation and consists of assembled land.
(5) Represents the Company s effective ownership interest. The Company has a 25.0% interest in the 300 Billerica Road and One & Two Circle Star Way properties and a 39.5% interest in the Mountain View Research and Technology Park properties.
(6) 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.

During 2009, the Company recognized non-cash impairment charges which represented the other-than-temporary decline in the fair value below the carrying value of the Company s investment in its Value-Added Fund. In accordance with ASC 323 Investments-Equity Method and Joint Ventures (ASC 323) (formerly known as Accounting Principles Board Opinion No. 18 The Equity Method of Accounting for Investments in Common Stock (APB No. 18)), a loss in value of an investment under the equity method of accounting, which is other than a temporary decline, must be recognized. Unlike the guidance in ASC 360 Property, Plant and Equipment (ASC 360) (formerly known as SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets), impairments under ASC 323 result from fair values derived based on discounted cash flows and other valuation techniques that are more sensitive to current market conditions. As a result, the Company recognized a non-cash impairment charge of approximately $9.4 million on its investment in the Company s Value-Added Fund. The Company has determined that its valuation of these investments was categorized within Level 3 of the fair value hierarchy in accordance with ASC 820-10 Fair Value Measurements and Disclosures (ASC 820-10) (formerly known as SFAS No. 157, Fair Value Measurements (SFAS No. 157)), as it utilized significant unobservable inputs in its assessment. The equity method investments represent the Company s only Level 3 assets for the year ended December 31, 2009. In addition, during December 2009, the Company s Value-Added Fund recognized a non-cash impairment charge in accordance with the guidance in ASC 360 (formerly known as SFAS No. 144) related to its One and Two Circle Star Way properties in San Carlos, California totaling approximately $24.6 million, of which the Company s share was approximately $4.2 million, which amount reflects the reduction in the Company s basis of approximately $2.0 million from previous impairment losses. The One and Two Circle Star Way properties will be vacant by the end of February 2010 and leasing activity continues to be challenging, with market rents declining significantly. The Value-Added Fund has a mortgage loan collateralized by the properties which is non-recourse to the Company and which expires in September 2013 and includes a cash escrow in place to fund the interest expense and carrying costs through mid-2010. The Value-Added Fund is currently in discussions with the lender to modify the loan and as a result believes that the carrying value of the properties may not be recoverable. Accordingly, the Value-Added Fund recognized the non-cash impairment charge to reduce the net book value of the properties to their estimated fair market value at December 31, 2009.

The following table reflects the activity of its investments in unconsolidated joint ventures for the year ended December 31, 2009 (in thousands):

Balance at January 1, 2009:	$ 782,760
Net loss	(10,898)
Impairment losses	(9,385)
Contributions	11,015
Distributions	(9,856)
Balance at December 31, 2009:	$ 763,636

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The combined summarized financial information of the unconsolidated joint ventures is as follows (in thousands):

Balance Sheets	December 31, 2009	2008
Real estate and development in process, net	$ 5,149,868	$ 5,235,149
Other assets	760,001	824,232
Total assets	$ 5,909,869	$ 6,059,381
Mortgage and Notes payable	$ 3,217,893	$ 3,189,549
Other liabilities	1,071,904	1,215,849
Members /Partners equity	1,620,072	1,653,983
Total liabilities and members /partners equity	$ 5,909,869	$ 6,059,381
Company s share of equity	$ 927,184	$ 948,222
Basis differential(1)	(163,548)	(165,462)
Carrying value of the Company s investments in unconsolidated joint ventures	$ 763,636	$ 782,760

(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.

Statements of Operations	Year Ended December 31, 2009	2008 (in thousands)	2007
Total revenue(1)	$ 595,533	$ 363,168	$ 95,064
Expenses			
Operating	163,209	101,670	35,546
Interest	232,978	139,154	31,883
Depreciation and amortization	232,047	144,712	21,386
Impairment losses	24,568	40,570	
Losses from early extinguishments of debt		152	146
Total expenses	652,802	426,258	88,961
Income (loss) before gain on sale of real estate	(57,269)	(63,090)	6,103
Gain on sale of real estate			32,777
Net income (loss)	$ (57,269)	$ (63,090)	$ 38,880

Company s share of net income (loss)	$ (22,197)	$ (30,910)	$ 20,428
Impairment losses on investments	(9,385)	(168,040)	
Basis differential	11,299		
Elimination of inter-entity interest on partner loan	32,341	16,932	
Income (loss) from unconsolidated joint ventures	$ 12,058	$ (182,018)	$ 20,428

(1) Includes straight-line rent adjustments of $28.0 million, $14.9 million and $2.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. Includes above and below market rent adjustments of $157.5 million, $91.7 million and $(3.2) million for the years ended December 31, 2009, 2008 and 2007, respectively.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Mortgage Notes Payable

The Company had outstanding mortgage notes payable totaling approximately $2.6 billion and $2.7 billion as of December 31, 2009 and 2008, respectively, each collateralized by one or more buildings and related land included in real estate assets. The mortgage notes payable are generally due in monthly installments and mature at various dates through August 1, 2021.

Fixed rate mortgage notes payable totaled approximately $2.2 billion and $2.4 billion at December 31, 2009 and 2008, respectively, with contractual interest rates ranging from 5.55% to 8.13% per annum at December 31, 2009 and 5.55% to 8.54% per annum at December 31, 2008 (with weighted-averages of 6.45% and 6.50% at December 31, 2009 and 2008, respectively).

Variable rate mortgage notes payable (including construction loans payable) totaled approximately $393.4 million and $285.5 million at December 31, 2009 and 2008, respectively, with interest rates ranging from 1.00% to 3.85% above the London Interbank Offered Rate (LIBOR) at December 31, 2009 and ranging from 1.00% to 1.75% above LIBOR at December 31, 2008. As of December 31, 2009 and 2008, the LIBOR rate was 0.23% and 0.44%, respectively.

On April 21, 2009, the Company obtained construction financing totaling $215.0 million collateralized by its Atlantic Wharf development project located at 280 Congress Street in Boston, Massachusetts. Atlantic Wharf, formerly known as Russia Wharf, is a mixed-use project totaling approximately 860,000 net rentable square feet. Wellington Management Company, LLP has leased approximately 450,000 square feet of the office space in the development commencing in the first quarter of 2011. The construction financing bears interest at a variable rate equal to LIBOR plus 3.00% per annum and matures on April 21, 2012 with two, one-year extension options, subject to certain conditions. There were no amounts drawn on the construction facility as of December 31, 2009.

On June 9, 2009, the Company used available cash to repay the mortgage loan collateralized by its Reservoir Place property located in Waltham, Massachusetts totaling approximately $47.8 million. The mortgage loan bore interest at a fixed rate of 7.00% per annum and was scheduled to mature on July 1, 2009. There was no prepayment penalty.

On June 26, 2009, the Company used available cash to repay the mortgage loan collateralized by its Ten Cambridge Center property located in Cambridge, Massachusetts totaling approximately $30.1 million. The mortgage loan bore interest at a fixed rate of 8.27% per annum and was scheduled to mature on May 1, 2010. The Company paid a prepayment penalty totaling $0.5 million in connection with the repayment.

On July 30, 2009, the Company obtained mortgage financing totaling $50.0 million collateralized by its Reservoir Place property located in Waltham, Massachusetts. The mortgage financing currently bears interest at a variable rate equal to LIBOR plus 3.85% per annum and matures on July 30, 2014.

On August 3, 2009, the Company used available cash to repay the mortgage loans collateralized by its 1301 New York Avenue property located in Washington, DC aggregating approximately $20.5 million. The mortgage loans bore interest at a weighted-average fixed rate of 6.91% per annum and were scheduled to mature on August 15, 2009. There were no prepayment penalties.

Six mortgage loans totaling approximately $295.0 million at December 31, 2009 and seven mortgage loans totaling approximately $350.2 million at December 31, 2008 have been accounted for at their fair values on the date the mortgage loans were assumed. The impact of recording the mortgage loans at fair value resulted in a decrease to interest expense of $4.1 million, $4.3 million and $4.2 million for the years ended December 31,

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2009, 2008 and 2007, respectively. The cumulative liability related to the fair value adjustments was $9.1 million and $13.2 million at December 31, 2009 and 2008, respectively, and is included in mortgage notes payable in the Consolidated Balance Sheets.

Contractual aggregate principal payments of mortgage notes payable at December 31, 2009 are as follows:

	Principal Payments (in thousands)
2010	$ 347,382
2011	646,378
2012	105,404
2013	101,263
2014	125,237
Thereafter	1,308,557

7. Unsecured Senior Notes

The following summarizes the unsecured senior notes outstanding as of December 31, 2009 (dollars in thousands):

	Coupon/ Stated Rate	Effective Rate(1)	Principal Amount	Maturity Date(2)
10 Year Unsecured Senior Notes	6.250%	6.381%	$ 750,000	January 15, 2013
10 Year Unsecured Senior Notes	6.250%	6.291%	175,000	January 15, 2013
12 Year Unsecured Senior Notes	5.625%	5.693%	300,000	April 15, 2015
12 Year Unsecured Senior Notes	5.000%	5.194%	250,000	June 1, 2015
10 Year Unsecured Senior Notes	5.875%	5.967%	700,000	October 15, 2019
Total principal			2,175,000	
Net discount			(2,611)	
Total			$ 2,172,389	

(1) Yield on issuance date including the effects of discounts on the notes.
(2) No principal amounts are due prior to maturity.

On October 9, 2009, the Company s Operating Partnership completed a public offering of $700.0 million in aggregate principal amount of its 5.875% senior notes due 2019. The notes were priced at 99.931% of the principal amount to yield 5.967% to maturity. The aggregate net proceeds to the Operating Partnership, after deducting underwriter discounts and offering expenses, were approximately $693.7 million. The

notes mature on October 15, 2019, unless earlier redeemed by the Company s Operating Partnership.

The indenture relating to the unsecured senior notes contains certain financial restrictions and requirements, including (1) a leverage ratio not to exceed 60%, (2) a secured debt leverage ratio not to exceed 50%, (3) an interest coverage ratio of greater than 1.50, and (4) an unencumbered asset value of not less than 150% of unsecured debt. At December 31, 2009 and 2008, the Company was in compliance with each of these financial restrictions and requirements.

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Unsecured Exchangeable Senior Notes

The following summarizes the unsecured exchangeable senior notes outstanding as of December 31, 2009 (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)	862,500	February 20, 2012	February 15, 2037
3.750% Exchangeable Senior Notes	3.750%	3.787%	10.0066(4)	450,000	May 18, 2013	May 15, 2036
Total principal				2,060,000		
Net discount				(15,529)		
ASC 470-20 (formerly known as FSP No. APB 14-1) Adjustment, net of accumulated amortization				(140,390)		
Total				$ 1,904,081		

(1) Yield on issuance date including the effects of discounts on the notes and excluding the effects of ASC 470-20 (formerly known as FSP No. APB 14-1).

(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, 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.

(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) 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.

ASC 470-20 (formerly known as FSP No. APB 14-1) requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer s nonconvertible debt borrowing rate. ASC 470-20 requires that the initial proceeds from the sale 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 be allocated 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

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 $1.90 billion and $1.86 billion (net of the ASC 470-20 adjustment of approximately $140.4 million and $179.0 million) at December 31, 2009 and December 31, 2008, 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 equity component of the notes has been reflected within Additional Paid-in Capital in the Consolidated Balance Sheets. The Company 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 carrying amount of the equity component was approximately $229.3 million at December 31, 2009 and December 31, 2008. 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 $74.4 million, $56.4 million and $43.1 million for the years ended December 31, 2009, 2008 and 2007, respectively. As a result of applying ASC 470-20, the Company reported additional non-cash interest expense of approximately $38.6 million, $27.8 million and $19.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. ASC 470-20 requires companies to retrospectively apply the requirements of the pronouncement to all periods presented. As a result, the revised diluted earnings per share reflect a reduction of $0.16 and $0.12 for the years ended December 31, 2008 and 2007, respectively. The application of ASC 470-20 reduced diluted earnings per share by approximately $0.25 for the year ended December 31, 2009.

9. Unsecured Line of Credit

On June 6, 2008, the Company s Operating Partnership utilized an accordion feature under its unsecured revolving credit facility (the Unsecured Line of Credit) with a consortium of lenders to increase the current lenders total commitment under the Unsecured Line of Credit from $605.0 million to $923.3 million. On July 21, 2008, the Company s Operating Partnership further increased the total commitment from $923.3 million to $1.0 billion. All other material terms under the facility remain unchanged. The Company s Unsecured Line of Credit bears interest at a variable interest rate equal to Eurodollar plus 0.475% per annum and matures on August 3, 2010, with a provision for a one-year extension at the option of the Company, subject to certain conditions. The Unsecured Line of Credit is a recourse obligation of the Company s Operating Partnership. Under the Unsecured Line of Credit, a facility fee equal to 0.125% per annum is payable in quarterly installments. The interest rate and facility fee are subject to adjustment in the event of a change in the Operating Partnership s unsecured debt ratings. The Unsecured Line of Credit involves a syndicate of lenders. The Unsecured Line of Credit contains a competitive bid option that allows banks that are part of the lender consortium to bid to make loan advances to the Company at a negotiated LIBOR-based rate. There were no amounts outstanding on the Unsecured Line of Credit at December 31, 2009. The Company had an outstanding balance on the Unsecured Line of Credit of $100.0 million at December 31, 2008. The weighted-average balance outstanding was approximately $45.2 million and $132.8 million during the years ended December 31, 2009 and 2008, respectively. The weighted-average interest rate on amounts outstanding was approximately 0.95% and 3.58% during the year ended December 31, 2009 and 2008, respectively.

The terms of the Unsecured Line of Credit require that the Company maintain a number of customary financial and other covenants on an ongoing basis, including: (1) a leverage ratio not to exceed 60%, however, the leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (2) a secured debt leverage ratio not to exceed 55%, (3) a fixed charge coverage ratio of at least 1.40, (4) an

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

unsecured debt leverage ratio not to exceed 60%, however, the unsecured debt leverage ratio may increase to no greater than 65% provided that it is reduced back to 60% within 180 days, (5) a minimum net worth requirement, (6) an unsecured debt interest coverage ratio of at least 1.75 and (7) limitations on permitted investments, development, partially owned entities, business outside of commercial real estate and commercial non-office properties. At December 31, 2009 and 2008, the Company was in compliance with each of these financial and other covenant requirements.

10. Commitments and Contingencies

General

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

The Company has letter of credit and performance obligations of approximately $13.2 million related to lender and development requirements.

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

In connection with the Company s assumption of the General Motors Building s secured loan by the Company s unconsolidated joint venture, 767 Venture, LLC, the Company guaranteed the unconsolidated joint venture s obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of December 31, 2009, the maximum funding obligation under the guarantee was approximately $23.9 million. From time to time, the Company (or the applicable joint venture) has also agreed to guarantee portions of the principal, interest or other amounts in connection with other unconsolidated joint venture borrowings. In addition to the financial guarantees referenced above, the Company has agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of its unconsolidated joint venture loans.

Concentrations of Credit Risk

Management of the Company performs ongoing credit evaluations of tenants and may require tenants to provide some form of credit support such as corporate guarantees and/or other financial guarantees. Although the Company s properties are geographically diverse and the tenants operate in a variety of industries, to the extent the Company has a significant concentration of rental revenue from any single tenant, the inability of that tenant to make its lease payments could have an adverse effect on the Company.

Some potential losses are not covered by insurance.

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, TRIA) was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). Currently, the Company s property insurance program per occurrence limits are $1.0 billion for its portfolio insurance program, including coverage for acts of terrorism certified under TRIA. The Company

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currently insures certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York (767 Fifth Avenue), in separate stand alone insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are $1.625 billion, including coverage for acts of terrorism certified under TRIA, with $1.375 billion of coverage for losses in excess of $250 million being provided by NYXP, LLC, as a direct insurer. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage (NBCR Coverage) for acts of terrorism certified under TRIA, which is provided by IXP, LLC as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding the properties owned by the Company s Value-Added Fund and certain other properties owned in joint ventures with third parties or which we manage. The per occurrence limit for NBCR Coverage is $1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage is backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is $100 million and the coinsurance is 15%. Under TRIPRA, if the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. The Company may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in its portfolio or for any other reason. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain insurance in amounts and on terms that are commercially reasonable.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Legal Matters

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

State and Local Tax Matters

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

Environmental Matters

It is the Company s policy to retain independent environmental consultants to conduct or update Phase I environmental assessments (which generally do not involve invasive techniques such as soil or ground water sampling) and asbestos surveys in connection with the Company s acquisition of properties. These pre-purchase environmental assessments have not revealed environmental conditions that the Company believes will have a material adverse effect on its business, assets, financial condition, results of operations or liquidity, and the Company is not otherwise aware of environmental conditions with respect to its properties that the Company believes would have such a material adverse effect. However, from time to time environmental conditions at the Company s properties have required and may in the future require environmental testing and/or regulatory filings, as well as remedial action.

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In February 1999, the Company (through a joint venture) acquired from Exxon Corporation a property in Massachusetts that was formerly used as a petroleum bulk storage and distribution facility and was known by the state regulatory authority to contain soil and groundwater contamination. The Company developed an office park on the property. The Company engaged a specially licensed environmental consultant to oversee the management of contaminated soil and groundwater that was disturbed in the course of construction. Under the property acquisition agreement, Exxon agreed to (1) bear the liability arising from releases or discharges of oil and hazardous substances which occurred at the site prior to the Company s ownership, (2) continue monitoring and/or remediating such releases and discharges as necessary and appropriate to comply with applicable requirements, and (3) indemnify the Company for certain losses arising from preexisting site conditions. Any indemnity claim may be subject to various defenses, and there can be no assurance that the amounts paid under the indemnity, if any, would be sufficient to cover the liabilities arising from any such releases and discharges.

Environmental investigations at some of the Company s properties and certain properties owned by affiliates of the Company have identified groundwater contamination migrating from off-site source properties. In each case the Company engaged a licensed environmental consultant to perform the necessary investigations and assessments and to prepare any required submittals to the regulatory authorities. In each case the environmental consultant concluded that the properties qualify under the regulatory program or the regulatory practice for a status which eliminates certain deadlines for conducting response actions at a site. The Company also believes that these properties qualify for liability relief under certain statutory provisions or regulatory practices regarding upgradient releases. Although the Company believes that the current or former owners of the upgradient source properties may bear responsibility for some or all of the costs of addressing the identified groundwater contamination, the Company will take such further response actions (if any) that it deems necessary or advisable. Other than periodic testing at some of these properties, no such additional response actions are anticipated at this time.

Some of the Company s properties and certain properties owned by the Company s affiliates are located in urban, industrial and other previously developed areas where fill or current or historical uses of the areas have caused site contamination. Accordingly, it is sometimes necessary to institute special soil and/or groundwater handling procedures and/or include particular building design features in connection with development, construction and other property operations in order to achieve regulatory closure and/or ensure that contaminated materials are addressed in an appropriate manner. In these situations it is the Company s practice to investigate the nature and extent of detected contamination and estimate the costs of required response actions and special handling procedures. The Company then uses this information as part of its decision-making process with respect to the acquisition and/or development of the property. For example, the Company owns a parcel in Massachusetts which was formerly used as a quarry/asphalt batching facility. Pre-purchase testing indicated that the site contained relatively low levels of certain contaminants. The Company has engaged a specially licensed environmental consultant to monitor environmental conditions at the site and prepare necessary regulatory submittals based on the results of an environmental risk characterization. A submittal has been made to the regulatory authorities in order to achieve regulatory closure at this site. The submittal included an environmental deed restriction that mandates compliance with certain protective measures in a portion of the site where low levels of residual soil contamination have been left in place in accordance with applicable laws. Development activities on the site are nearing completion and this work will be performed in accordance with the environmental deed restriction and other environmental requirements applicable to the site.

The Company expects that resolution of the environmental matters relating to the above will not have a material impact on its business, assets, financial condition, results of operations or liquidity. However, the Company cannot assure you that it has identified all environmental liabilities at its properties, that all necessary remediation actions have been or will be undertaken at the Company s properties or that the Company will be indemnified, in full or at all, in the event that such environmental liabilities arise.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tax Protection Obligations

In connection with the acquisition or contribution of five properties, the Company entered into agreements for the benefit of the selling or contributing parties which specifically state that until such time as the contributors do not hold at least a specified percentage of the OP Units owned by such person following the contribution of the properties, or until June 2017 for one of the properties, the Operating Partnership will not sell or otherwise transfer the properties in a taxable transaction. If the Company does sell or transfer the properties in a taxable transaction, it would be liable to the contributors for contractual damages.

11. Noncontrolling Interests

Effective January 1, 2009, the Company adopted the guidance included in ASC 810 Consolidation (ASC 810) (formerly known as SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160)) and ASC 480-10-S99 Distinguishing Liabilities from Equity (ASC 480-10-S99) (formerly known as EITF Topic No. D-98 Classification and Measurement of Redeemable Securities (Amended)), under which noncontrolling interests of the Company (previously known as minority interests) are classified either as a component of equity or in the mezzanine section of the balance sheet as temporary equity depending on the terms of such noncontrolling interests. As a result of the adoption of the guidance included in ASC 810, the Company reclassified the noncontrolling interests in consolidated property partnerships from the mezzanine section of its Consolidated Balance Sheets to equity. The reclassification totaled approximately $6.9 million as of December 31, 2008. In addition, the Company reclassified the noncontrolling interests related to the common units of the Operating Partnership not owned by the Company from the mezzanine section of its Consolidated Balance Sheets to equity. The reclassification totaled approximately $563.2 million as of December 31, 2008. Noncontrolling interests related to redeemable preferred units of the Operating Partnership continue to be classified in the mezzanine section of the Consolidated Balance Sheets.

Under the guidance included in ASC 810, net income encompasses the total income of all consolidated subsidiaries and there is a separate disclosure of the attribution of that income between controlling and noncontrolling interests. The implementation of this standard had no effect on the Company s results of operations. As a result of the adoption of the guidance included in ASC 810, net income attributable to noncontrolling interests is now deducted from net income in the determination of net income attributable to the Company for all periods presented. In addition, other comprehensive income (loss) attributable to noncontrolling interests is now deducted from comprehensive income in the determination of comprehensive income attributable to the Company for all periods presented.

Noncontrolling interests relate to the interests in the Operating Partnership not owned by the Company and interests in property partnerships not wholly-owned by the Company. As of December 31, 2009, the noncontrolling interests consisted of 19,814,499 OP Units, 1,416,162 LTIP Units, 1,080,938 2008 OPP Units and 1,113,044 Series Two Preferred Units (or 1,460,688 OP Units on an as converted basis) held by parties other than the Company.

Noncontrolling Interest Redeemable Preferred Units of the Operating Partnership

The Preferred Units at December 31, 2009 and 2008 consisted solely of 1,113,044 Series Two Preferred Units, which bear a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) a rate ranging from 5.00% to 7.00% per annum on a liquidation preference of $50.00 per unit, and are convertible into OP Units at a rate of $38.10 per Preferred Unit

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(1.312336 OP Units for each Preferred Unit). Distributions on the Series Two Preferred Units are payable quarterly and, unless the greater rate described in the next sentence applies, accrue at 7.0% until May 12, 2009 and 6.0% thereafter. If distributions on the number of OP Units into which the Series Two Preferred Units are convertible are greater than distributions calculated using the rates described in the preceding sentence for the applicable quarterly period, then the greater distributions are payable instead. The holders of Series Two Preferred Units have the right to require the Operating Partnership to redeem their units for cash at the redemption price of $50.00 per unit on May 12, 2010, May 12, 2011, May 14, 2012, May 14, 2013 and May 12, 2014. The maximum number of units that may be required to be redeemed from all holders on each of these dates is 1,007,662, which is one-sixth of the number of Series Two Preferred Units that were originally issued. The holders had the right to have their Series Two Preferred Units redeemed for cash on May 12, 2009, although no holder exercised such right. The Company also has the right, under certain conditions and at certain times, to redeem Series Two Preferred Units for cash and to convert into OP Units any Series Two Preferred Units that are not redeemed when they are eligible for redemption.

On February 17, 2009, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.89239 per unit. On May 15, 2009, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.89239 per unit. On August 17, 2009, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.75616 per unit. On November 16, 2009, the Operating Partnership paid a distribution on its outstanding Series Two Preferred Units of $0.75616 per unit.

The following table reflects the activity for noncontrolling interests redeemable preferred units for the years ended December 31, 2009, 2008 and 2007:

Balance at December 31, 2006	$ 85,962
Net income	10,429
Distributions	(9,870)
Adjustments to reflect redeemable preferred units at redemption value (1)	(30,869)
Balance at December 31, 2007	55,652
Net income	4,226
Distributions	(3,738)
Adjustments to reflect redeemable preferred units at redemption value	(488)
Balance at December 31, 2008	55,652
Net income	3,594
Distributions	(3,594)
Balance at December 31, 2009	$ 55,652

(1) Includes the conversion of 606,186 Series Two Preferred Units into 795,520 OP Units during the year ended December 31, 2007.

Noncontrolling Interest Common Units of the Operating Partnership

During the years ended December 31, 2009 and 2008, 138,856 and 631,297 OP Units, respectively, were presented by the holders for redemption and were redeemed by the Company in exchange for an equal number of shares of Common Stock.

At December 31, 2009, the Company had outstanding 1,080,938 2008 OPP Units. Prior to the measurement date on February 5, 2011, 2008 OPP Units will be entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special

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distributions. After the measurement date, the number of 2008 OPP Units, both vested and unvested, which 2008 OPP award recipients have earned, if any, based on the establishment of an outperformance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit.

On January 30, 2009, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit and a distribution on the 2008 OPP Units in the amount of $0.068 per unit to holders of record as of the close of business on December 31, 2008. On April 30, 2009, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.68 per unit and a distribution on the 2008 OPP Units in the amount of $0.068 per unit to holders of record as of the close of business on March 31, 2009. On July 31, 2009, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.50 per unit and a distribution on the 2008 OPP Units in the amount of $0.05 per unit to holders of record as of the close of business on June 30, 2009. On October 30, 2009, the Operating Partnership paid a distribution on the OP Units and LTIP Units in the amount of $0.50 per unit and a distribution on the 2008 OPP Units in the amount of $0.05 per unit to holders of record as of the close of business on September 30, 2009. On December 17, 2009, Boston Properties, Inc., as general partner of the Operating Partnership, declared a distribution on the OP Units and LTIP Units in the amount of $0.50 per unit and a distribution on the 2008 OPP Units in the amount of $0.05 per unit, in each case payable on January 29, 2010 to holders of record as of the close of business on December 31, 2009.

The Series Two Preferred Units may be converted into OP Units at the election of the holder thereof at any time. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company. The Company may, in its sole discretion, elect to assume and satisfy the redemption obligation by paying either cash or issuing one share of Common Stock. The value of the OP Units (not owned by the Company and including LTIP Units assuming that all conditions have been met for the conversion thereof) and Series Two Preferred Units (on an as converted basis) had all of such units been redeemed at December 31, 2009 was approximately $1.42 billion and $98.0 million, respectively, based on the closing price of the Company s common stock of $67.07 per share on December 31, 2009.

Noncontrolling Interest Property Partnerships

The noncontrolling interests in property partnerships consist of the outside equity interests in joint ventures that are consolidated with the financial results of the Company because the Company exercises control over the entities that own the properties. The equity interests in these ventures that are not owned by the Company, totaling approximately $5.7 million and $6.9 million at December 31, 2009 and December 31, 2008, respectively.

On January 5, 2009, the Company repaid a $25.0 million loan in connection with the agreement entered into in May 2006 to redeem the outside members equity interests in the limited liability company that owns 601 Lexington Avenue (formerly known as Citigroup Center).

12. Stockholders Equity

As of December 31, 2009, the Company had 138,880,010 shares of Common Stock outstanding.

On June 10, 2009, the Company completed a public offering of 17,250,000 shares of its Common Stock (including 2,250,000 shares issued as a result of the exercise of an overallotment option by the underwriters) at a price to the public of $50.00 per share. The proceeds from this public offering, net of underwriters discounts and offering costs, totaled approximately $841.9 million.

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On January 30, 2009, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on December 31, 2008. On April 30, 2009, the Company paid a dividend in the amount of $0.68 per share of Common Stock to shareholders of record as of the close of business on March 31, 2009. On July 31, 2009, the Company paid a dividend in the amount of $0.50 per share of Common Stock to shareholders of record as of the close of business on June 30, 2009. On October 30, 2009, the Company paid a dividend in the amount of $0.50 per share of Common Stock to shareholders of record as of the close of business on September 30, 2009. On December 17, 2009, the Company s Board of Directors declared a dividend in the amount of $0.50 per share of Common Stock payable on January 29, 2010 to shareholders of record as of the close of business on December 31, 2009.

During the years ended December 31, 2009 and 2008, the Company issued 138,856 and 631,297 shares of its Common Stock, respectively, in connection with the redemption of an equal number of OP Units.

During the years ended December 31, 2009 and 2008, the Company issued 242,507 and 1,058,133 shares of its Common Stock, respectively, upon the exercise of options to purchase Common Stock by certain employees.

13. Future Minimum Rents

The properties are leased to tenants under net operating leases with initial term expiration dates ranging from 2010 to 2049. The future contractual minimum lease payments to be received (excluding operating expense reimbursements) by the Company as of December 31, 2009, under non-cancelable operating leases which expire on various dates through 2049, are as follows:

Years Ending December 31,	(in thousands)
2010	$ 1,114,614
2011	1,115,809
2012	1,047,167
2013	981,599
2014	918,525
Thereafter	4,627,558

No single tenant represented more than 10.0% of the Company s total rental revenue for the years ended December 31, 2009, 2008 and 2007.

14. Segment Reporting

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, DC, Midtown Manhattan, Greater San Francisco and New Jersey. Segments by property type include: Class A Office, Office/Technical and Hotels.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

For the year ended December 31, 2009:

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A Office	$ 364,064	$ 318,786	$ 441,571	$ 218,432	$ 63,189	$ 1,406,042
Office/Technical	30,655	16,230				46,885
Hotels	30,385					30,385
Total	425,104	335,016	441,571	218,432	63,189	1,483,312
% of Grand Totals	28.66%	22.58%	29.77%	14.73%	4.26%	100.0%
Rental Expenses:						
Class A Office	137,785	93,799	146,398	80,269	29,751	488,002
Office/Technical	9,475	4,322				13,797
Hotels	23,966					23,966
Total	171,226	98,121	146.398	80,269	29,751	525,765
% of Grand Totals	32.57%	18.66%	27.84%	15.27%	5.66%	100.0%
Net operating income	$ 253,878	$ 236,895	$ 295,173	$ 138,163	$ 33,438	$ 957,547
% of Grand Totals	26.51%	24.74%	30.83%	14.43%	3.49%	100.0%

For the year ended December 31, 2008:

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A Office	$ 360,468	$ 282,166	$ 435,219	$ 214,202	$ 63,908	$ 1,355,963

Office/Technical	30,634	15,455				46,089
Hotels	36,872					36,872
Total	427,974	297,621	435,219	214,202	63,908	1,438,924
% of Grand Totals	29.74%	20.68%	30.25%	14.89%	4.44%	100.0%
Rental Expenses:						
Class A Office	139,448	82,227	142,764	79,553	30,705	474,697
Office/Technical	9,650	3,683				13,333
Hotels	27,510					27,510
Total	176,608	85,910	142,764	79,553	30,705	515,540
% of Grand Totals	34.26%	16.66%	27.69%	15.43%	5.96%	100.0%
Net operating income	$ 251,366	$ 211,711	$ 292,455	$ 134,649	$ 33,203	$ 923,384
% of Grand Totals	27.22%	22.93%	31.67%	14.58%	3.60%	100.0%

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended December 31, 2007:

	Greater Boston	Greater Washington, DC	Midtown Manhattan	Greater San Francisco	New Jersey	Total
Rental Revenue:						
Class A Office	$ 336,974	$ 240,413	$ 443,382	$ 203,450	$ 67,582	$ 1,291,801
Office/Technical	28,085	14,333				42,418
Hotels	37,811					37,811
Total	402,870	254,746	443,382	203,450	67,582	1,372,030
% of Grand Totals	29.35%	18.57%	32.32%	14.83%	4.93%	100.0%
Rental Expenses:						
Class A Office	129,643	68,749	137,404	78,597	29,422	443,815
Office/Technical	8,831	3,194				12,025
Hotels	27,765					27,765
Total	166,239	71,943	137,404	78,597	29,422	483,605
% of Grand Totals	34.38%	14.88%	28.41%	16.25%	6.08%	100.0%
Net operating income	$ 236,631	$ 182,803	$ 305,978	$ 124,853	$ 38,160	$ 888,425
% of Grand Totals	26.63%	20.58%	34.44%	14.05%	4.30%	100.0%

The following is a reconciliation of Net Operating Income to net attributable to Boston Properties, Inc. (in thousands):

	Years ended December 31,		
	2009	2008	2007
Net operating income	$ 957,547	$ 923,384	$ 888,425
Add:			
Development and management services	34,878	30,518	20,553
Interest and other	4,059	18,958	89,706
Income (loss) from unconsolidated joint ventures	12,058	(182,018)	20,428
Gains on sales of real estate and other assets	11,760	33,340	929,785
Gains on sales of real estate from discontinued operations			259,519
Income from discontinued operations			7,274
Less:			
General and administrative	75,447	72,365	69,882
Interest expense	322,833	295,322	302,980
Depreciation and amortization	321,681	304,147	286,030
Loss from suspension of development	27,766		
Net derivative losses		17,021	
Losses (gains) from investments in securities	(2,434)	4,604	

Losses from early extinguishments of debt	510		3,417
Noncontrolling interests in property partnerships	2,778	1,997	84
Noncontrolling interest common units of the Operating Partnership	35,534	14,392	51,978
Noncontrolling interest in gains on sales of real estate and other assets common units of the Operating Partnership	1,579	4,838	140,547
Noncontrolling interest in discontinued operations common units of the Operating Partnership			40,237
Noncontrolling interest redeemable preferred units of the Operating Partnership.	3,594	4,226	10,429
Net income attributable to Boston Properties, Inc.	$ 231,014	$ 105,270	$ 1,310,106

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Earnings Per Share

Earnings per share (EPS) has been computed pursuant to the provisions of ASC 260-10 Earnings Per Share (ASC 260-10). During 2004, the Company adopted the guidance included in ASC 260-10 (formerly known as EITF 03-6 Participating Securities and the Two-Class Method under FASB 128 (EITF 03-6)), which provides further guidance on the definition of participating securities. Pursuant to the guidance included in ASC 260-10, the Operating Partnership s Series Two Preferred Units, which are reflected as Noncontrolling Interests Redeemable Preferred Units of the Operating Partnership in the Company s Consolidated Balance Sheets, are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. The terms of the Series Two Preferred Units enable the holders to obtain OP Units of the Operating Partnership, as well as Common Stock of the Company. In June 2008, the FASB issued guidance included in ASC 260-10 (formerly known as FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities (FSP EITF 03-6-1)). The guidance included in ASC 260-10 clarifies that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. The guidance included in ASC 260-10 requires the retrospective adjustment of all prior-period EPS data presented (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of the guidance. Early application was not permitted. As a result, the Company s unvested restricted stock, LTIP Units and 2008 OPP Units are considered participating securities and are included in the computation of basic and diluted earnings per share of the Company if the effect of applying the if-converted method is dilutive. The adoption of the guidance included in ASC 260-10 on January 1, 2009 did not have a material impact on the Company s computation of EPS. Because the 2008 OPP Units require the Company to outperform absolute and relative return thresholds, unless such thresholds have been met by the end of the applicable reporting period, the Company excludes the 2008 OPP Units from the diluted EPS calculation. For the years ended December 31, 2009 and 2008, the absolute and relative return thresholds for the 2008 OPP Units were not met and as a result the 2008 OPP Units have been excluded from the diluted EPS calculation. Other potentially dilutive common shares, including stock options, restricted stock and other securities of the Operating Partnership that are exchangeable for the Company s Common Stock, and the related impact on earnings, are considered when calculating diluted EPS. The following table provides a reconciliation of both the net income attributable to Boston Properties, Inc. and the number of common shares used in the computation of basic EPS, which is calculated by dividing net income attributable to Boston Properties, Inc. by the weighted-average number of common shares outstanding during the period.

	For the year ended December 31, 2009		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	$ 231,014	131,050	$ 1.76
Effect of Dilutive Securities:			
Stock Based Compensation		462	(0.00)
Diluted Earnings:			
Net income	$ 231,014	131,512	$ 1.76

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the year ended December 31, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Net income attributable to Boston Properties, Inc.	$ 105,270	119,980	$ 0.88
Effect of Dilutive Securities:			
Stock Based Compensation		1,319	(0.01)
Diluted Earnings:			
Net income	$ 105,270	121,299	$ 0.87

	For the year ended December 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(in thousands, except for per share amounts)		
Basic Earnings:			
Income attributable to Boston Properties, Inc. before discontinued operations and allocation of undistributed earnings to participating securities	$ 1,083,550	118,839	$ 9.12
Discontinued operations attributable to Boston Properties, Inc.	226,556		1.91
Allocation of undistributed earnings to participating securities	(5,220)		(0.05)
Net income attributable to Boston Properties, Inc.	1,304,886	118,839	10.98
Effect of Dilutive Securities:			
Stock Based Compensation		1,763	(0.16)
Exchangeable Senior Notes		178	(0.02)
Diluted Earnings:			
Net income	$ 1,304,886	120,780	$ 10.80

16. Employee Benefit Plans

Effective January 1, 1985, the predecessor of the Company adopted a 401(k) Savings Plan (the Plan) for its employees. Under the Plan, as amended, employees, as defined, are eligible to participate in the Plan after they have completed three months of service. Upon formation, the Company adopted the Plan and the terms of the Plan.

Effective January 1, 2000, the Company amended the Plan by increasing the Company s matching contribution to 200% of the first 3% from 200% of the first 2% of participant s eligible earnings contributed (utilizing earnings that are not in excess of an amount established by the IRS ($245,000, $230,000 and $225,000 in 2009, 2008 and 2007, respectively), indexed for inflation) and by eliminating the vesting requirement. The Company s aggregate matching contribution for the years ended December 31, 2009, 2008 and 2007 was $3.0 million, $2.7 million and $2.1 million, respectively.

Effective January 1, 2001, the Company amended the Plan to provide a supplemental retirement contribution to employees who have at least ten years of service on January 1, 2001, and who are 40 years of age or older as of January 1, 2001. The maximum supplemental retirement contribution will not exceed the annual limit on contributions established by the Internal Revenue Service. The Company will record an annual

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

supplemental retirement credit for the benefit of each participant. The Company s supplemental retirement contribution and credit for the years ended December 31, 2009, 2008 and 2007 was $122,000, $210,000 and $178,000, respectively.

The Company also maintains a deferred compensation plan that is designed to allow officers of the Company to defer a portion of their current income on a pre-tax basis and receive a tax-deferred return on these deferrals. The Company s obligation under the plan is that of an unsecured promise to pay the deferred compensation to the plan participants in the future. At December 31, 2009 and 2008, the Company has funded approximately $9.9 million and $6.6 million, respectively, into a separate account, which is not restricted as to its use. The Company s liability under the plan is equal to the total amount of compensation deferred by the plan participants and earnings on the deferred compensation pursuant to investments elected by the plan participants. The Company s liability as of December 31, 2009 and 2008 was $9.8 million and $6.3 million, respectively, which are included in the accompanying Consolidated Balance Sheets.

17. Stock Option and Incentive Plan and Stock Purchase Plan

The Company has established a stock option and incentive plan for the purpose of attracting and retaining qualified employees and rewarding them for superior performance in achieving the Company s business goals and enhancing stockholder value.

At the Company s 2007 annual meeting of stockholders held on May 15, 2007, the Company s stockholders approved an amendment and restatement of the Company s 1997 Stock Option and Incentive Plan (the 1997 Plan) that, among other things, (1) increased the limit on full value shares (i.e., awards other than stock options) that may be issued under the Plan by 2,500,000 shares, (2) extended the term of the Plan to May 15, 2017 and (3) added provisions that allow the Company to qualify certain grants under the Plan as performance-based compensation under Section 162(m) of the Internal Revenue Code.

Under the amended plan, the number of shares of Common Stock available for issuance is 4,019,174 shares. At December 31, 2009, the number of shares available for issuance under the plan was 1,901,049, of which a maximum of 1,447,508 shares may be granted as awards other than stock options.

Options granted under the plan became exercisable over a two-, three- or five-year period and have terms of ten years, as determined at the time of the grant. All options were granted at the fair market value of the Company s Common Stock at the dates of grant. As of January 17, 2005, all outstanding options had become fully vested and exercisable.

On January 24, 2008, the Compensation Committee (the Committee) of the Board of Directors (the Board) of the Company approved outperformance awards under the 1997 Plan to officers and key employees of the Company. These awards (the 2008 OPP Awards) are part of a broad-based, long-term incentive compensation program designed to provide the Company s management team at several levels within the organization with the potential to earn equity awards subject to the Company outperforming and creating shareholder value in a pay-for-performance structure. 2008 OPP Awards utilize total return to shareholders (TRS) over a three-year measurement period as the

performance metric and include two years of time-based vesting after the end of the performance measurement period (subject to acceleration in certain events) as a retention tool. Recipients of 2008 OPP Awards will share in an outperformance pool if the Company s TRS, including both share appreciation and dividends, exceeds absolute and relative hurdles over a three-year measurement period from February 5, 2008 to February 5, 2011, based on the average closing price of a share of the Company s common stock (a REIT Share) of $92.8240 for the five trading days prior to and including

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

February 5, 2008. The aggregate reward that recipients of all 2008 OPP Awards can earn, as measured by the outperformance pool, is subject to a maximum cap of $110 million, although only awards for an aggregate of up to approximately $104.8 million have been granted to date. The balance remains available for future grants, with OPP awards exceeding a potential reward of $1 million requiring the Committee s approval.

The outperformance pool will consist of (i) three percent (3%) of the excess total return above a cumulative absolute TRS hurdle of 30% over the full three-year measurement period (the Absolute TRS Component) and (ii) three percent (3%) of the excess or deficient excess total return above or below a relative TRS hurdle equal to the total return of the SNL Equity REIT Index over the three-year measurement period (the Relative TRS Component). In the event that the Relative TRS Component is potentially positive because the Company s TRS is higher than the total return of the SNL Equity REIT Index, the actual contribution to the outperformance pool from the Relative TRS Component will be subject to a sliding scale factor as follows: (i) 100% of the potential Relative TRS Component will be earned if the Company s TRS is equal to or greater than a cumulative 30% over three years (equivalent to 10% per annum), (ii) 0% will be earned if the Company s TRS is equal to or less than a cumulative 21% over three years (equivalent to 7% per annum), and (iii) a percentage from 0% to 100% calculated by linear interpolation will be earned if the Company s cumulative TRS over three years is between 21% and 30%. The potential Relative TRS Component before application of the sliding scale factor will be capped at $110 million (or such lesser amount as corresponds to the OPP awards actually granted). In the event that the Relative TRS Component is negative because the Company s TRS is less than the total return of the SNL Equity REIT Index, any outperformance reward potentially earned under the Absolute TRS Component will be reduced dollar for dollar, provided that the potential Absolute TRS Component before reduction for any negative Relative TRS Component will be capped at $110 million (or such lesser amount as corresponds to the OPP awards actually granted). The algebraic sum of the Absolute TRS Component and the Relative TRS Component determined as described above will never exceed $110 million (or such lesser amount as corresponds to the OPP awards actually granted).

Each employee s 2008 OPP Award is designated as a specified percentage of the aggregate outperformance pool. Assuming the applicable absolute and/or relative TRS thresholds are achieved at the end of the measurement period, the algebraic sum of the Absolute TRS Component and the Relative TRS Component will be calculated and then allocated among the 2008 OPP Award recipients in accordance with each individual s percentage. Rewards earned with respect to 2008 OPP Awards will vest 25% on February 5, 2011, 25% on February 5, 2012, and 50% on February 5, 2013, based on continued employment. Vesting will be accelerated in the event of a change of control of the Company, termination of employment by the Company without cause or termination of employment by the award recipient for good reason, death, disability or retirement, although restrictions on transfer will continue to apply in certain of these situations. 2008 OPP Awards are in the form of LTIP units of limited partnership interest of the Operating Partnership, which are referred to herein as 2008 OPP Units. 2008 OPP Units were issued prior to the determination of the outperformance pool, but will remain subject to forfeiture depending on the extent of rewards earned with respect to 2008 OPP Awards. The number of 2008 OPP Units issued initially to recipients of the 2008 OPP Awards was an estimate of the maximum number of 2008 OPP Units that they could earn, based on certain assumptions. The number of 2008 OPP Units actually earned by each award recipient, if any, will be determined at the end of the performance measurement period by dividing his or her share of the outperformance pool by the average closing price of a share of common stock for the 15 trading days immediately preceding the measurement date. Total return for the Company and for the SNL Equity REIT Index over the three-year measurement period and other circumstances will determine how many 2008 OPP Units are earned by each recipient; if they are fewer than the number issued initially, the balance will be forfeited as of the performance measurement date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Prior to the measurement date, 2008 OPP Units will be entitled to receive per unit distributions equal to one-tenth (10%) of the regular quarterly distributions payable on an OP Unit, but will not be entitled to receive any special distributions. After the measurement date, the number of 2008 OPP Units, both vested and unvested, which employees have earned based on the establishment of an outperformance pool, will be entitled to receive distributions in an amount per unit equal to distributions, both regular and special, payable on an OP Unit.

The Company issued 62,876, 4,723 and 6,536 shares of restricted stock and 515,007, 288,507 and 156,161 LTIP Units to employees and directors under the 1997 Plan during the years ended December 31, 2009, 2008 and 2007, respectively. The Company issued 1,085,861 2008 OPP Units under the 1997 Plan during the year ended December 31, 2008. Employees paid $0.01 per share of restricted common stock and $0.25 per LTIP and 2008 OPP Unit. An LTIP Unit is generally the economic equivalent of a share of restricted stock in the Company. The aggregate value of the LTIP Units is included in Noncontrolling Interests in the Consolidated Balance Sheets. The restricted stock and LTIP Units granted to employees between January 1, 2004 and November 2006 vest over a five-year term. Grants of restricted stock and LTIP Units made on and after November 22, 2006 vest in four equal annual installments. Restricted stock and LTIP Units are measured at fair value on the date of grant based on the number of shares or units granted, as adjusted for forfeitures, and the price of the Company s Common Stock on the date of grant as quoted on the New York Stock Exchange. Such value is recognized as an expense ratably over the corresponding employee service period. As the 2008 OPP Awards are subject to both a service condition and a market condition, the Company recognizes the compensation expense related to the 2008 OPP Awards under the graded vesting attribution method. Under the graded vesting attribution method, each portion of the award that vests at a different date is accounted for as a separate award and recognized over the period appropriate to that portion so that the compensation cost for each portion should be recognized in full by the time that portion vests. Dividends paid on both vested and unvested shares of restricted stock are charged directly to Earnings in Excess of Dividends in the Consolidated Balance Sheets. Stock-based compensation expense associated with restricted stock, LTIP Units and 2008 OPP Units was approximately $25.6 million, $22.1 million and $11.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. At December 31, 2009, there was $34.7 million of unrecognized compensation expense related to unvested restricted stock and LTIP Units and $9.0 million of unrecognized compensation expense related to unvested 2008 OPP Units that is expected to be recognized over a weighted-average period of approximately 2.4 years.

The shares of restricted stock were valued at approximately $2.8 million ($43.89 per share weighted-average), $0.5 million ($96.09 per share weighted-average) and $0.8 million ($125.46 per share weighted-average) for the years ended December 31, 2009, 2008 and 2007, respectively.

LTIP Units were valued using a Monte Carlo simulation method model in accordance with the provisions of ASC 718 Compensation Stock Compensation (ASC 718) (formerly SFAS No. 123R). LTIP Units issued during the years ended December 31, 2009, 2008 and 2007 were valued at approximately $21.1 million, $25.4 million and $18.0 million, respectively. The weighted-average per unit fair value of LTIP Unit grants in 2009, 2008 and 2007 was $41.05, $88.08 and $115.47, respectively. The per unit fair value of each LTIP Unit granted in 2009, 2008 and 2007 was estimated on the date of grant using the following assumptions; an expected life of 5.6 years, 5.6 years and 5.3 years, a risk-free interest rate of 1.87%, 2.75% and 4.82% and an expected price volatility of 40.0%, 25.0% and 18.0%, respectively.

The 2008 OPP Units were valued at approximately $19.7 million utilizing a Monte Carlo simulation to estimate the probability of the performance vesting conditions being satisfied. The Monte Carlo simulation used a statistical formula underlying the Black-Scholes and binomial formulas and such simulation was run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, which is then discounted to the award date at a risk-free interest rate. The average of the values over all simulations is the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expected value of the unit on the award date. Assumptions used in the valuations included (1) factors associated with the underlying performance of the Company s stock price and total shareholder return over the term of the performance awards including total stock return volatility and risk-free interest and (2) factors associated with the relative performance of the Company s stock price and total shareholder return when compared to the SNL Equity REIT Index. The valuation was performed in a risk-neutral framework, so no assumption was made with respect to an equity risk premium. The fair value of the 2008 OPP Units is based on the sum of: (1) the present value of the expected payoff to the OPP Award on the measurement date, if the total return to stockholders (TRS) over the applicable measurement period exceeds performance hurdles of the Absolute and the Relative Components; and (2) the present value of the distributions payable on the 2008 OPP Units. The ultimate reward realized on account of the OPP Award by the holders of the 2008 OPP Units is contingent on the TRS achieved on the measurement date, both in absolute terms and relative to the TRS of the SNL Equity REIT Index. The per unit fair value of each 2008 OPP Unit was estimated on the date of grant using the following assumptions in the Monte-Carlo valuation: expected price volatility for the Company and the SNL Equity REIT index of 25% and 20%, respectively; a risk free rate of 2.08%; and estimated total dividend payments over the measurement period of $8.23 per share.

In connection with the declaration of the special cash dividends of $5.98 per share of Common Stock paid on January 30, 2008 to shareholders of record on December 31, 2007, the Company s Board of Directors approved adjustments to all its outstanding stock option awards that were intended to ensure that its employees, directors and other persons who held such stock options were not disadvantaged by the special cash dividend. The exercise prices and number of all outstanding options were adjusted as of the close of business on the last trading day prior to the related ex-dividend date such that each option had the same fair value to the holder before and after giving effect to the payment of the special cash dividend. Accordingly, pursuant to the provisions of ASC 718, no compensation cost has been recognized in the Consolidated Statements of Operations in connection with such adjustments. As a result, effective as of the close of business on December 26, 2007, 2,131,556 outstanding stock options with a weighted-average exercise price of $37.42 were adjusted to 2,264,535 outstanding options with a weighted-average exercise price of $35.22. There were no other adjustments to the terms of the outstanding stock option awards.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the status of the Company s stock options as of December 31, 2009, 2008 and 2007 and changes during the years ended December 31, 2009, 2008 and 2007 are presented below:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2006	2,791,354	$ 37.49
Granted		
Exercised	(659,798)	$ 37.71
Canceled		
Special Dividend Adjustment	132,979	$ 35.22
Outstanding at December 31, 2007	2,264,535	$ 35.22
Granted		
Exercised	(1,058,133)	$ 36.36
Canceled		
Outstanding at December 31, 2008	1,206,402	$ 34.23
Granted		
Exercised	(242,507)	$ 33.41
Canceled		
Outstanding at December 31, 2009	963,895	$ 34.44

The following table summarizes information about stock options outstanding at December 31, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/09	Weighted-Average Exercise Price
$32.62-$36.45	963,895	1.6 Years	$ 34.44	963,895	$ 34.44

The total intrinsic value of the outstanding and exercisable stock options as of December 31, 2009 was approximately $31.5 million. In addition, the Company had 1,206,402 and 2,264,535 options exercisable at weighted-average exercise prices of $34.23 and $35.22 at December 31, 2008 and 2007, respectively.

The Company adopted the 1999 Non-Qualified Employee Stock Purchase Plan (the Stock Purchase Plan) to encourage the ownership of Common Stock by eligible employees. The Stock Purchase Plan became effective on January 1, 1999 with an aggregate maximum of 250,000

shares of Common Stock available for issuance. The Stock Purchase Plan provides for eligible employees to purchase on the business day immediately following the end of the biannual purchase periods (i.e., January 1-June 30 and July 1-December 31) shares of Common Stock at a purchase price equal to 85% of the average closing prices of the Common Stock during the last ten business days of the purchase period. The Company issued 12,105, 7,755 and 6,166 shares with the weighted average purchase price equal to $42.65 per share, $80.80 per share and $90.98 per share under the Stock Purchase Plan during the years ended December 31, 2009, 2008 and 2007, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Selected Interim Financial Information (unaudited)

The tables below reflect the Company s selected quarterly information for the years ended December 31, 2009 and 2008. The information provided has been revised for 2008 to reflect the adoption of (1) ASC 470-20 Debt with Conversion and Other Options (ASC 470-20) (formerly known as FSP No. APB 14-1) (See Note 8), (2) the guidance included in ASC 810 Consolidation (ASC 810) (formerly known as SFAS No. 160) and ASC 480-10-S99 Distinguishing Liabilities from Equity (ASC 480-10-S99) (formerly known as EITF Topic No. D-98) (See Note 11) and (3) the guidance included in ASC 260-10 Earnings Per Share (ASC 260-10) (formerly known as FSP EITF 03-06-1) (See Note 15).

	2009 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except for per share amounts)			
Total revenue	$ 377,544	$ 389,490	$ 377,303	$ 377,912
Income from continuing operations	$ 54,030	$ 80,073	$ 77,650	$ 62,746
Net income attributable to Boston Properties, Inc.	$ 44,598	$ 67,152	$ 65,795	$ 53,317
Income attributable to Boston Properties, Inc. per share basic	$ 0.37	$ 0.54	$ 0.47	$ 0.38
Income attributable to Boston Properties, Inc. per share diluted	$ 0.37	$ 0.53	$ 0.47	$ 0.38

	2008 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,(1)
	(in thousands, except for per share amounts)			
Total revenue	$ 371,432	$ 368,680	$ 357,988	$ 390,300
Income (loss) from continuing operations	$ 100,866	$ 90,125	$ 52,353	$ (112,621)
Net income (loss) attributable to Boston Properties, Inc.	$ 84,482	$ 75,483	$ 43,079	$ (98,063)
Income (loss) attributable to Boston Properties, Inc. per share basic	$ 0.71	$ 0.63	$ 0.36	$ (0.81)
Income (loss) attributable to Boston Properties, Inc. per share diluted	$ 0.70	$ 0.62	$ 0.35	$ (0.81)

(1) During the quarter ended December 31, 2008, the Company recognized non-cash impairment charges of approximately $188.3 million on certain of its investments in unconsolidated joint ventures.

19. Held for Sale/Discontinued Operations

The Company applies the provisions of ASC 360 Property, Plant and Equipment (ASC 360) (formerly known as SFAS No. 144 Accounting for the Impairment or Disposal of Long Lived Assets) The guidance in ASC 360 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

On January 7, 2008, the Company transferred at cost Mountain View Research Park and Mountain View Technology Park to its Value-Added Fund for an aggregate of approximately $221.6 million. Due to the Company s continuing involvement through its ownership interest in the Value-Added Fund, these properties have not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

Due to the Company s continuing involvement in the management, for a fee, of 5 Times Square through an agreement with the buyer and other financial obligations to the buyer, 5 Times Square has not been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. Due to the Company s continuing involvement in the management, for a fee, of the Democracy Center property through an agreement with the buyer that was entered into at closing, this property is not categorized as discontinued operations in the accompanying Consolidated Statements of Operations. As a result, the gains on sales related to these properties have been reflected under the caption Gains on sales of real estate and other assets in the Consolidated Statements of Operations. The Company has presented the other properties listed above as discontinued operations in its Consolidated Statements of Operations for the year ended December 31, 2007.

The following table summarizes income from discontinued operations and the related realized gains on sales of real estate from discontinued operations for the years ended December 31, 2009, 2008 and 2007:

	For the Year Ended December 31,		
	2009	2008	2007
	(in thousands)		
Total revenue	$	$	$ 19,665
Operating expenses			(9,443)
Depreciation and amortization			(2,948)
Income from discontinued operations			7,274
Noncontrolling interest common units of the Operating Partnership			(1,068)

Income from discontinued operations attributable to Boston Properties, Inc.	$	$	$ 6,206
Gains on sales of real estate from discontinued operations	$	$	$ 259,519
Noncontrolling interest common units of the Operating Partnership			(39,169)
Gains on sales of real estate from discontinued operations attributable to Boston Properties, Inc.	$	$	$ 220,350

The Company s application of ASC 360 results in the presentation of the net operating results of these qualifying properties sold during 2007 as income from discontinued operations. In addition, ASC 360 results in the gains on sale of these qualifying properties totaling approximately $259.5 million to be reflected as gains on sales of real estate from discontinued operations in the accompanying Consolidated Statements of Operations for

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the year ended December 31, 2007. The application of ASC 360 does not have an impact on net income attributable to Boston Properties, Inc. ASC 360 only impacts the presentation of these properties within the Consolidated Statements of Operations.

20. Newly Issued Accounting Standards

In June 2008, the FASB ratified the guidance included in ASC 815-40 Derivatives and Hedging (ASC 815-40) (formerly known as EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity s Own Stock (EITF No. 07-5)). The guidance included in ASC 815-40 requires entities to apply a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock. The guidance included in ASC 815-40 was effective on January 1, 2009. The adoption of the guidance included in ASC 815-40 did not have a material impact on the Company.

In April 2009, the FASB issued ASC 820-10-65-4 Transition Related to FASB Staff Position FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 820-10-65-4) (formerly known as FSP No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4)). ASC 820-10-65-4 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for the asset or liability have significantly decreased. ASC 820-10-65-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. ASC 820-10-65-4 was effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 820-10-65-4 did not have a material impact on the Company s financial position or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167), which modifies the approach to determining the primary beneficiary of a variable interest entity (VIE) and requires companies to more frequently assess whether they must consolidate a VIE. SFAS No. 167 is effective on the first annual reporting period that begins after November 15, 2009. The Company is currently assessing the potential impact that the adoption of SFAS No. 167 will have on its financial statements.

In June 2009, the FASB issued SFAS No. 168, The *FASB Accounting Standards Codification* and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162 (SFAS No. 168), which establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. SFAS No. 168 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS No. 168 did not have a material impact on the Company.

21. Related Party Transactions

On October 26, 2005, the Company entered into an agreement with an entity owned by Mr. Zuckerman. Under the agreement, which was approved by the disinterested members of the Company s Board of Directors, the Company rendered project management services to such entity in exchange for a fee. The Company extended its services under a letter dated October 10, 2006. Under the agreement, as extended, the Company earned $0, $0 and $80,000 during the years ended December 31, 2009, 2008 and 2007, respectively.

BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A firm controlled by Mr. Raymond A. Ritchey s brother was paid aggregate leasing commissions of approximately $257,000, $2,219,000 and $848,000 for the years ended December 31, 2009, 2008 and 2007, respectively, related to certain exclusive leasing arrangements for certain Northern Virginia properties. Mr. Ritchey is an Executive Vice President of Boston Properties, Inc.

Mr. Martin Turchin, a member of the Company s Board of Directors, is a non-executive/non-director Vice Chairman of CB Richard Ellis (CBRE). Through an arrangement with CBRE and its predecessor, Insignia/ESG, Inc. that has been in place since 1985, Mr. Turchin and Turchin & Associates, an entity owned by Mr. Turchin (95%) and his son (5%), participate in brokerage activities for which CBRE is retained as leasing agent, some of which involve leases for space within buildings owned by the Company. Additionally, Mr. Turchin s son is employed by CBRE and works on transactions for which CBRE earns commission income from the Company. Mr. Turchin s son s compensation from CBRE is in the form of salary and bonus, neither of which is directly tied to CBRE s transactions with the Company. For the years ended December 31, 2009, 2008 and 2007, Mr. Turchin, directly and through Turchin & Associates, received commission income of $29,000, $138,000 and $95,000, respectively, from commissions earned by CBRE and its predecessor, Insignia/ESG, Inc., from the Company. Pursuant to its arrangement with CBRE, Turchin & Associates has confirmed to the Company that it is paid on the same basis with respect to properties owned by the Company as it is with respect to properties owned by other clients of CBRE. Mr. Turchin does not participate in any discussions or other activities relating to the Company s contractual arrangements with CBRE either in his capacity as a member of the Company s Board of Directors or as a Vice Chairman of CBRE.

On June 30, 1998, the Company acquired from entities controlled by Mr. Alan B. Landis, a former director, a portfolio of properties known as the Carnegie Center Portfolio and Tower Center One and related operations and development rights (collectively, the Carnegie Center Portfolio). In connection with the acquisition of the Carnegie Center Portfolio, the Operating Partnership entered into a development agreement (the Development Agreement) with affiliates of Mr. Landis providing for up to approximately 2,000,000 square feet of development in or adjacent to the Carnegie Center office complex. An affiliate of Mr. Landis was entitled to a purchase price for each parcel developed under the Development Agreement calculated on the basis of $20 per rentable square foot of property developed. Another affiliate of Mr. Landis was eligible to earn a contingent payment for each developed property that achieves a stabilized return in excess of a target annual return ranging between 10.5% and 11%. The Development Agreement also provided that upon negotiated terms and conditions, the Company and Mr. Landis would form a development company to provide development services for these development projects and would share the expenses and profits, if any, of this new company. In addition, in connection with the acquisition of the Carnegie Center Portfolio, Mr. Landis became a director of the Company pursuant to an Agreement Regarding Directorship, dated as of June 30, 1998, with the Company (the Directorship Agreement). Under the Directorship Agreement, the Company agreed to nominate Mr. Landis for re-election as a director at each annual meeting of stockholders of the Company in a year in which his term expires, provided that specified conditions are met.

On October 21, 2004, the Company entered into an agreement (the 2004 Agreement) to modify several provisions of the Development Agreement. Under the terms of the 2004 Agreement, the Operating Partnership and affiliates of Mr. Landis amended the Development Agreement to limit the rights of Mr. Landis and his affiliates to participate in the development of properties under the Development Agreement. Among other things, Mr. Landis agreed that (1) Mr. Landis and his affiliates will have no right to participate in any entity formed to acquire land parcels or the development company formed by the Operating Partnership to provide development services under the Development Agreement, (2) Mr. Landis will have no right or obligation to play a role in development activities engaged in by the development company formed by the Operating Partnership under the Development Agreement or receive compensation from the development company and (3) the affiliate of

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Mr. Landis will have no right to receive a contingent payment for developed properties based on stabilized returns. In exchange, the Company (together with the Operating Partnership) agreed to:

effective as of June 30, 1998, pay Mr. Landis $125,000 on January 1 of each year until the earlier of (A) January 1, 2018, (B) the termination of the Development Agreement or (C) the date on which all development properties under the Development Agreement have been conveyed pursuant to the Development Agreement, with $750,000, representing payments of this annual amount from 1998 to 2004, being paid upon execution of the 2004 Agreement; and

pay an affiliate of Mr. Landis, in connection with the development of land parcels acquired under the Development Agreement, an aggregate fixed amount of $10.50 per rentable square foot of property developed (with a portion of this amount (i.e., $5.50) being subject to adjustment, in specified circumstances, based on future increases in the Consumer Price Index) in lieu of a contingent payment based on stabilized returns, which payment could have been greater or less than $10.50 per rentable square foot of property developed.

The Operating Partnership also continues to be obligated to pay an affiliate of Mr. Landis the purchase price of $20 per rentable square foot of property developed for each land parcel acquired as provided in the original Development Agreement. During the 20-year term of the Development Agreement, until such time, if any, as the Operating Partnership elects to acquire a land parcel, an affiliate of Mr. Landis will remain responsible for all carrying costs associated with such land parcel. On July 24, 2007, the Company acquired from Mr. Landis 701 Carnegie Center, a land parcel located in Princeton, New Jersey for a purchase price of approximately $3.1 million.

In addition, in connection with entering into the 2004 Agreement, Mr. Landis resigned as a director of the Company effective as of May 11, 2005 and agreed that the Company had no future obligation to nominate Mr. Landis as a director of the Company under the Directorship Agreement or otherwise. Mr. Landis did not resign because of a disagreement with the Company on any matter relating to its operations, policies or practices. Mitchell S. Landis, the Senior Vice President and Regional Manager of the Company s Princeton, New Jersey region, is the brother of Alan B. Landis.

In accordance with the Company s 1997 Plan, and as approved by the Board of Directors, seven non-employee directors made an election to receive deferred stock units in lieu of cash fees for 2009. The deferred stock units will be settled in shares of common stock upon the cessation of such director s service on the Board of Directors. As a result of these elections, the aggregate cash fees otherwise payable to a non-employee director during a fiscal quarter are converted into a number of deferred stock units equal to the aggregate cash fees divided by the last reported sales price of a share of the Company s common stock on the last trading of the applicable fiscal quarter. The deferred stock units are also credited with dividend equivalents as dividends are paid by the Company. At December 31, 2009 and 2008, the Company had outstanding 87,302 and 72,580 deferred stock units, respectively.

22. Subsequent Events

In May 2009, the FASB issued ASC 855-10 Subsequent Events (ASC 855-10) (formerly known as SFAS No. 165 Subsequent Events (SFAS No. 165)), which establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before the financial statements are issued. The guidance included in ASC 855-10 was effective for interim or annual periods beginning after June 15, 2009. The Company has evaluated subsequent events through the time of filing these financial statements with the SEC on Form 10-K on February 25, 2010.

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BOSTON PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On January 19, 2010, the Company paid $12.8 million related to the termination of a lease for its 250 West 55th Street project in New York City. The Company announced in February 2009 that it was suspending construction of the 1,000,000 square foot office project. 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.

On January 29, 2010, the Company issued 66,461 shares of restricted stock and 248,833 LTIP Units under the 1997 Plan to certain employees of the Company.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

As of the end of the period covered by this report, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting is set forth on page 99 of this Annual Report on Form 10-K and is incorporated herein by reference.

Item 9B. ***Other Information***

None.

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PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by Item 10 will be included in the Proxy Statement to be filed relating to our 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by Item 11 will be included in the Proxy Statement to be filed relating to our 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The following table summarizes our equity compensation plans as of December 31, 2009.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	3,548,296(2)	$ 34.44(2)	1,901,049
Equity compensation plans not approved by security holders(3)	N/A	N/A	151,987
Total	3,548,296	$ 34.44	2,053,036

(1) Includes information related to our 1997 Plan (See Note 17).

(2) Includes (a) 963,895 shares of common stock issuable upon the exercise of outstanding options, (b) 1,416,162 LTIP units that, upon the satisfaction of certain conditions, are convertible into common units, which may then be presented to Boston Properties, Inc. for redemption and acquired by Boston Properties, Inc. for shares of common stock, (c) 1,080,938 2008 OPP Units and (d) 87,302 deferred stock units which were granted pursuant to elections by our non-employee directors to defer all cash compensation to be paid to such directors and to receive their deferred cash compensation in shares of Boston Properties, Inc. s common stock upon their retirement from our Board of Directors. Does not include 71,704 shares of restricted stock, as they have been reflected in our total shares outstanding. Because there is no exercise price associated with LTIP Units, 2008 OPP Units or deferred stock units, such shares are not included in the

weighed-average exercise price calculation. On February 5, 2008, we granted 2008 OPP Units to officers and key employees. The 2008 OPP Units are earned if Boston Properties, Inc. outperforms absolute and relative thresholds. Such thresholds were not met as of December 31, 2009.

(3) Includes information related to the 1999 Non-Qualified Employee Stock Purchase Plan.

The 1999 Non-Qualified Employee Stock Purchase Plan (the ESPP)

The ESPP was adopted by the Board of Directors on October 29, 1998. The ESPP has not been approved by our shareholders. The ESPP is available to all employees that are employed on the first day of the purchase period. Under the ESPP, each eligible employee may purchase shares of Boston Properties, Inc. s common stock

at semi-annual intervals each year at a purchase price equal to 85% of the average closing prices of Boston Properties, Inc. s common stock on the New York Stock Exchange during the last ten business days of the purchase period. Each eligible employee may contribute no more than $10,000 per year to purchase Boston Properties, Inc. common stock under the ESPP.

Additional information concerning security ownership of certain beneficial owners and management required by Item 12 will be included in the Proxy Statement to be filed relating to our 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by Item 13 will be included in the Proxy Statement to be filed relating to our 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by Item 14 will be included in the Proxy Statement to be filed relating to our 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

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PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) Financial Statement Schedule

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Boston Properties, Inc.

Schedule 3 Real Estate and Accumulated Depreciation

December 31, 2009

(dollars in thousands)

Property Name	Type	Location	Encumbrances	Original Land	Original Building	Costs Capitalized Subsequent to Acquisition	Land and Improvements	Building and Improvements	Land Held for Development	Development and Construction in Progress	Total	Accumulated Depreciation	Year(s) Built/ Renovated	Depreciable Lives (Years)
Embarcadero Center	Office	San Francisco, CA	$ 375,000	$ 179,697	$ 847,410	$ 263,427	$ 195,984	$ 1,094,550	$	$	$ 1,290,534	$ 324,299	1970/1989	(1)
399 Park Avenue	Office	New York, NY		339,200	700,358	77,623	354,107	763,074			1,117,181	134,738	1961	(1)
Prudential Center	Office	Boston, MA		92,077	734,594	269,605	107,426	973,566	15,284		1,096,276	275,997	1965/1993/2002	(1)
601 Lexington Avenue (Citigroup Center)	Office	New York, NY	467,034	241,600	494,782	188,752	289,639	635,495			925,134	126,026	1977/1997	(1)
Times Square Tower	Office	New York, NY		165,413	380,438	82,782	170,494	458,139			628,633	80,905	2004	(1)
Carnegie Center	Office	Princeton, NJ	56,306	105,107	377,259	56,736	103,062	434,370	1,670		539,102	122,420	1983-1999	(1)
599 Lexington Avenue	Office	New York, NY	750,000	81,040	100,507	114,566	87,852	208,261			296,113	122,374	1986	(1)
Gateway Center	Office	San Francisco, CA		28,255	139,245	49,246	30,627	186,119			216,746	51,672	1984/1986/2002	(1)
South of Market	Office	Reston, VA	187,377	13,603	164,144	3,552	13,687	167,612			181,299	10,618	2008	(1)
Reservoir Place	Office	Waltham, MA	50,000	18,605	92,619	29,234	20,118	120,340			140,458	41,866	1955/1987	(1)
3200 Zanker Road	Office	San Jose, CA		36,705	82,863	7,573	36,997	89,017	1,127		127,141	11,590	1988	(1)
1333 New Hampshire Avenue	Office	Washington, DC		34,032	85,660	7,383	35,382	91,693			127,075	20,660	1996	(1)
Kingstowne Towne Center	Office	Alexandria, VA	59,387	18,021	109,038	(320)	18,062	108,677			126,739	11,983	2003-2006	(1)
505 9th Street	Office	Washington, DC	129,843	38,885	83,719	2,543	38,956	86,191			125,147	7,371	2007	(1)
1330 Connecticut Avenue	Office	Washington, DC	47,721	25,982	82,311	15,485	27,135	96,643			123,778	16,661	1984	(1)
Capital Gallery	Office	Washington, DC		4,725	29,565	88,478	8,662	114,106			122,768	38,933	1981/2006	(1)
635 Massachusetts Avenue	Office	Washington, DC		95,281	22,221	63	95,293	22,257		15	117,565	5,239	1968/1992	(1)
One Freedom Square	Office	Reston, VA	71,266	9,929	84,504	12,756	11,293	95,896			107,189	30,827	2000	(1)
Two Freedom Square	Office	Reston, VA		13,930	77,739	12,408	15,420	88,657			104,077	23,610	2001	(1)
Seven Cambridge Center	Office	Cambridge, MA		3,457	97,136	2,880	4,125	99,348			103,473	23,673	2006	(1)
One and Two Reston Overlook	Office	Reston, VA		16,456	66,192	8,908	17,561	73,995			91,556	22,831	1999	(1)

140 Kendrick Street	Office	Needham, MA	53,849	18,095	66,905	4,246	19,092	70,154		89,246	10,093	2000	(1)
Discovery Square	Office	Reston, VA		11,198	71,782	6,131	12,533	76,578		89,111	19,954	2001	(1)
12310 Sunrise Valley Drive	Office	Reston, VA		9,367	67,431	8,597	11,343	74,052		85,395	20,870	1987/1988	(1)
Waltham Weston Corporate Center	Office	Waltham, MA		10,385	60,694	8,130	11,097	68,112		79,209	20,168	2003	(1)
77 CityPoint	Office	Waltham, MA		13,847	60,383	3,094	13,873	63,451		77,324	2,797	2008	(1)
Five Cambridge Center	Office	Cambridge, MA		18,863	53,346	4,594	18,938	57,865		76,803	7,648	1981/1996	(1)
12300 Sunrise Valley Drive	Office	Reston, VA		9,062	58,884	8,584	11,009	65,426	95	76,530	18,316	1987/1988	(1)
Democracy Tower	Office	Reston, VA	58,875		73,335			73,335		73,335	1,077	2009	(1)
North First Business Park	Office	San Jose, CA		58,402	13,069	1,788	23,377	14,172	35,710	73,259	3,271	1981	(1)
Four Cambridge Center	Office	Cambridge, MA		19,104	52,078	1,471	19,148	53,505		72,653	5,552	1983/1998	(1)
230 CityPoint	Office	Waltham, MA		13,189	49,823	8,933	13,593	58,352		71,945	9,316	1992	(1)
Reston Corporate Center	Office	Reston, VA		9,135	50,857	5,638	10,148	55,482		65,630	14,994	1984	(1)
New Dominion Technology Park, Bldg. Two	Office	Herndon, VA	63,000	5,584	51,868	3,672	6,510	54,614		61,124	9,445	2004	(1)
Wisconsin Place	Office	Chevy Chase, MD	97,169		53,349			53,349		53,349	837	2009	(1)
191 Spring Street	Office	Lexington, MA		2,850	27,166	22,350	3,151	49,215		52,366	28,896	1971/1995	(1)
New Dominion Technology Park, Bldg. One	Office	Herndon, VA	50,967	3,880	43,227	3,857	4,583	46,381		50,964	13,168	2001	(1)
303 Almaden Boulevard	Office	San Jose, CA		10,836	35,606	3,869	10,947	39,364		50,311	4,700	1995	(1)
1301 New York Avenue	Office	Washington, DC		9,250	18,750	20,493	9,867	38,626		48,493	12,892	1983/1998	(1)
One Preserve Parkway	Office	Rockville, MD		5,357	42,186		5,357	42,186		47,543	1,328	2009	(1)
200 West Street	Office	Waltham, MA		16,148	24,983	3,479	16,813	27,797		44,610	10,109	1999	(1)
Sumner Square	Office	Washington, DC	25,495	624	28,745	15,050	1,478	42,941		44,419	16,309	1985	(1)
University Place	Office	Cambridge, MA	18,422		37,091	5,569	390	42,270		42,660	14,915	1985	(1)
Bedford Business Park	Office	Bedford, MA		534	3,403	38,149	2,218	39,868		42,086	20,293	1980	(1)
2600 Tower Oaks Boulevard	Office	Rockville, MD		4,243	31,125	6,035	4,785	36,618		41,403	11,505	2001	(1)
Quorum Office Park	Office	Chelmsford, MA		3,750	32,454	5,176	5,187	36,193		41,380	8,858	2001	(1)
12290 Sunrise Valley Drive	Office	Reston, VA		3,594	32,977	1,374	4,009	33,936		37,945	5,148	2006	(1)
One Cambridge Center	Office	Cambridge, MA		134	25,110	10,572	548	35,268		35,816	20,072	1987	(1)

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Type	Location	Encumbrances	Original Land	Original Building	Costs Capitalized Subsequent to Acquisition	Land and Improvements	Building and Improvements	Land Held for Development	Development and Construction in Progress	Total	Accumulated Depreciation	Year(s) Built Renovated
Office	Washington, DC		109	22,420	11,724	2,379	31,874			34,253	16,975	19
Office	Cambridge, MA	22,910	850	25,042	2,115	1,323	26,684			28,007	6,812	19
Office	Burlington, MA	18,524	930	6,928	12,760	802	19,816			20,618	12,015	1984-1989/95-
Office	Cambridge, MA		1,299	12,943	6,109	2,395	17,956			20,351	8,896	19
Office	Lexington, MA		2,849	15,303	(146)	3,124	14,882			18,006	4,120	19
Office	Gaithersburg, MD	25,000	1,574	9,786	6,568	2,555	15,373			17,928	8,596	19
Office	Andover, MA		709	14,740	2,304	893	16,860			17,753	4,245	20
Office	Lexington, MA		998	1,426	14,776	1,264	15,936			17,200	9,720	19
Office	Cambridge, MA		174	12,200	4,113	367	16,120			16,487	9,025	19
Office	Springfield, VA		14,041	2,375	(160)	13,866	2,375	15		16,256	1,417	19
Office	Waltham, MA		11,911	2,507	8	11,913	2,513			14,426	1,697	19
Office	Lexington, MA		594	6,748	6,816	802	13,356			14,158	6,816	19
Office	Lexington, MA		1,066	9,520	3,168	1,160	12,594			13,754	3,788	19
Office	Waltham, MA		422	2,719	8,060	586	8,439	2,176		11,201	6,139	1968-1970/87-
Office	Lexington, MA	15,156	784	6,464	3,583	941	9,890			10,831	5,966	19
Office	Waltham, MA		1,611	6,652	2,551	1,858	8,956			10,814	4,377	19
Office	Springfield, VA		665	9,273	544	791	9,691			10,482	2,921	19
Office	Cambridge, MA		121	5,535	3,947	324	9,279			9,603	5,599	19
Office	Lexington, MA		266	3,234	6,042	425	9,117			9,542	5,697	19
Office	Springfield, VA		392	3,822	3,546	659	7,101			7,760	4,148	19
Office	Springfield, VA		1,165	4,681	1,892	1,430	6,308			7,738	2,188	19
Office	Springfield, VA		366	4,282	2,886	601	6,933			7,534	4,144	19
Office	Springfield, VA		138	3,749	2,101	406	5,582			5,988	3,343	19
Office	Springfield, VA		200	878	4,875	551	5,402			5,953	2,914	19

Office	Cambridge, MA	110	4,483	1,223	273	5,543			5,816	3,252	19
Office	Springfield, VA	608	4,773	212	661	4,932			5,593	2,524	20
Office	Springfield, VA	136	3,071	1,322	775	3,754			4,529	1,829	19
Office	Springfield, VA	23	2,685	1,136	93	3,751			3,844	1,950	19
Office	Springfield, VA	241	1,605	1,648	398	3,096			3,494	1,775	19
Office	Lexington, MA	168	1,943	1,246	314	3,043			3,357	2,391	1968-1979/19
Office	Springfield, VA	249	1,542	1,313	613	2,491			3,104	1,901	19
Office	Billerica, MA	592	1,370	414	643	1,733			2,376	624	19
Office	Lexington, MA	26	150	1,397	65	1,508			1,573	898	19
Hotel	Cambridge, MA	478	37,918	26,632	1,201	63,827			65,028	33,421	19
Garage	Cambridge, MA		35,035	1,487	103	36,419			36,522	2,868	19
Garage	Cambridge, MA	1,256	15,697	781	1,434	16,300			17,734	1,727	20
Garage	Cambridge, MA	1,163	11,633	2,750	1,579	13,967			15,546	6,514	19
velopment	Boston, MA			371,984				371,984	371,984		Vario
velopment	Washington, DC			99,340				99,340	99,340		Vario
velopment	Weston, MA			92,306				92,306	92,306		Vario
Land	New York, NY			472,293			472,293		472,293		Vario
Land	San Jose, CA			36,591			36,591		36,591		Vario
Land	Springfield, VA			28,888			28,888		28,888		Vario
Land	Rockville, MD			28,309			28,309		28,309		Vario
Land	Waltham, MA			23,605			23,605		23,605		Vario
Land	Gaithersburg, MD			17,629			17,629		17,629		Vario
Land	Cambridge, MA			17,350			17,350		17,350		Vario
Land	Reston, VA			9,312			9,312		9,312		Vario
Land	Reston, VA			9,300			9,300		9,300		Vario
Land	Marlborough, MA			8,720			8,720		8,720		Vario

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rty ne	Type	Location	Encumbrances	Original Land	Original Building	Costs Capitalized Subsequent to Acquisition	Land and Improvements	Building and Improvements	Land Held for Development	Development and Construction in Progress	Total	Accumulated Depreciation	Year(s) Built/ Renovated	Depre Lives (
Run ss	Land	Loudon County, VA				7,617	1,621		5,996		7,617		Various	
dge	Land	Cambridge, MA				3,439		128	3,311		3,439		Various	
k	Land	Andover, MA				1,144			1,144		1,144		Various	
			$ 2,643,301(2)	$ 1,867,715	$ 6,334,063	$ 2,874,101	$ 1,983,064	$ 7,810,645	$ 718,525	$ 563,645	$ 11,075,879	$ 2,020,056		

The aggregate cost and accumulated depreciation for tax purposes was approximately $10.5 billion and $1.6 billion, respectively.

(1) Depreciation of the buildings and improvements are calculated over lives ranging from the life of the lease to 40 years.
(2) Includes fair value adjustment of approximately $9.1 million.

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Boston Properties, Inc.

Real Estate and Accumulated Depreciation

December 31, 2009

(dollars in thousands)

A summary of activity for real estate and accumulated depreciation is as follows:

	2009	2008	2007
Real Estate:			
Balance at the beginning of the year	$ 10,602,278	$ 10,231,881	$ 9,568,679
Additions to/improvements of real estate	481,237	620,633	1,428,959
Assets sold/written-off	(7,636)	(250,236)	(765,757)
Balance at the end of the year	$ 11,075,879	$ 10,602,278	$ 10,231,881
Accumulated Depreciation:			
Balance at the beginning of the year	$ 1,755,600	$ 1,519,795	$ 1,416,219
Depreciation expense	269,394	258,789	245,077
Assets sold/written-off	(4,938)	(22,984)	(141,501)
Balance at the end of the year	$ 2,020,056	$ 1,755,600	$ 1,519,795

Note: Real Estate and Accumulated Depreciation amounts do not include Furniture, Fixtures and Equipment.

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(b) Exhibits

3.1	Form of Amended and Restated Certificate of Incorporation of Boston Properties, Inc. (Incorporated by reference to Exhibit 3.1 to Boston Properties, Inc. s Registration Statement on Form S-11, File No. 333-25279.)
3.2	Amended and Restated Certificate of Designations of Series E Junior Participating Cumulative Preferred Stock of Boston Properties, Inc. (Incorporated by reference to Exhibit 3.1 to Boston Properties, Inc. s Current Report on Form 8-K filed on June 18, 2007.)
3.3	Second Amended and Restated Bylaws of Boston Properties, Inc. (Incorporated by reference to Exhibit 3.1 to Boston Properties, Inc. s Current Report on Form 8-K filed on October 24, 2008.)
4.1	Shareholder Rights Agreement, dated as of June 18, 2007, between Boston Properties, Inc. and Computershare Trust Company, N.A., as Rights Agent. (Incorporated by reference to Exhibit 4.1 to Boston Properties, Inc. s Current Report on Form 8-K filed on June 18, 2007.)
4.2	Form of Certificate of Designations for Series A Preferred Stock. (Incorporated by reference to Exhibit 99.26 to Boston Properties, Inc. s Current Report on Form 8-K filed on November 25, 1998.)
4.3	Form of Common Stock Certificate. (Incorporated by reference to Exhibit 4.3 to Boston Properties, Inc. s Registration Statement on Form S-11, File No. 333-25279.)
4.4	Indenture, dated as of December 13, 2002, by and between Boston Properties Limited Partnership and The Bank of New York, as Trustee. (Incorporated by reference to Exhibit 4.1 to Boston Properties, Inc. s Current Report on Form 8-K/A filed on December 13, 2002.)
4.5	Supplemental Indenture No. 1, dated as of December 13, 2002, by and between Boston Properties Limited Partnership and The Bank of New York, as Trustee, including a form of the 6.25% Senior Note due 2013. (Incorporated by reference to Exhibit 4.2 to Boston Properties, Inc. s Current Report on Form 8-K/A filed on December 13, 2002.)
4.6	Supplemental Indenture No. 2, dated as of January 17, 2003, by and between Boston Properties Limited Partnership and The Bank of New York, as Trustee, including a form of the 6.25% Senior Note due 2013. (Incorporated by reference to Exhibit 4.1 to Boston Properties, Inc. s Current Report on Form 8-K filed on January 23, 2003.)
4.7	Supplemental Indenture No. 3, dated as of March 18, 2003, by and between Boston Properties Limited Partnership and The Bank of New York, as Trustee, including a form of the 5.625% Senior Note due 2015. (Incorporated by reference to Exhibit 4.6 to Boston Properties Limited Partnership s Amendment No. 3 to Form 10 filed on May 13, 2003.)
4.8	Supplemental Indenture No. 4, dated as of May 22, 2003, by and between Boston Properties Limited Partnership and The Bank of New York, as Trustee, including a form of the 5.00% Senior Note due 2015. (Incorporated by reference to Exhibit 4.2 to Boston Properties Limited Partnership s Form S-4 filed on June 13, 2003, File No. 333-106127.)
4.9	Supplemental Indenture No. 5, dated as of April 6, 2006, by and between Boston Properties Limited Partnership and The Bank of New York Trust Company, N.A., as Trustee, including a form of the 3.75% Exchangeable Senior Note due 2036. (Incorporated by reference to Exhibit 4.1 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on May 10, 2006.)
4.10	Supplemental Indenture No. 6, dated February 6, 2007, by and between Boston Properties Limited Partnership and The Bank of New York Trust Company, N.A., as Trustee, including a form of the 2.875% Exchangeable Senior Note due 2037. (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of Boston Properties Limited Partnership filed on February 6, 2007.)

4.11	Supplemental Indenture No. 7, dated as of August 19, 2008, between the Company and the Trustee, including a form of the 3.625% Exchangeable Senior Note due 2014. (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Boston Properties Limited Partnership filed on August 20, 2008.)
4.12	Supplemental Indenture No. 8, dated as of October 9, 2009, between Boston Properties Limited Partnership and The Bank of New York Mellon Trust Company, N.A., as Trustee, including a form of the 5.875% Senior Note due 2019. (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Boston Properties Limited Partnership filed on October 9, 2009).
4.13	Registration Rights Agreement, dated as of February 6, 2007, among Boston Properties Limited Partnership, Boston Properties, Inc., JP Morgan Securities Inc. and Morgan Stanley & Co. Incorporated. (Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of Boston Properties Limited Partnership filed on February 6, 2007.)
4.14	Registration Rights Agreement, dated as of August 19, 2008, among the Company, Boston Properties, Inc., JP Morgan Securities Inc., Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Deutsche Bank Securities Inc. and Citigroup Global Markets Inc., as the representatives of the initial purchasers of the Notes. (Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of Boston Properties Limited Partnership filed on August 20, 2008.)
10.1	Second Amended and Restated Agreement of Limited Partnership of Boston Properties Limited Partnership, dated as of June 29, 1998. (Incorporated by reference to Exhibit 99.1 to Boston Properties, Inc. s Current Report on Form 8-K filed on July 15, 1998.)
10.2	Certificate of Designations for the Series Two Preferred Units, dated November 12, 1998, constituting an amendment to the Second Amended and Restated Agreement of Limited Partnership of Boston Properties Limited Partnership. (Incorporated by reference to Exhibit 99.24 to Boston Properties, Inc. s Current Report on Form 8-K filed on November 25, 1998.)
10.3*	Forty-Seventh Amendment to the Second Amended and Restated Agreement of Limited Partnership of Boston Properties Limited Partnership, dated as of April 11, 2003, by Boston Properties, Inc., as general partner. (Incorporated by reference to Exhibit 10.1 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on August 14, 2003.)
10.4*	Seventy-Seventh Amendment to the Second Amended and Restated Agreement of Limited Partnership of Boston Properties Limited Partnership, dated as of January 24, 2008, by Boston Properties, Inc., as general partner. (Incorporated by reference to Exhibit 10.3 to Boston Properties, Inc. s Current Report on Form 8-K filed on January 29, 2008.)
10.5*	Second Amendment and Restatement of Boston Properties, Inc. 1997 Stock Option and Incentive Plan. (Incorporated by reference to Exhibit A to Boston Properties, Inc. s Proxy Statement on Schedule 14A filed on April 6, 2007.)
10.6*	Form of 2008 Outperformance Award Agreement. (Incorporated by reference to Exhibit 10.1 to Boston Properties, Inc. s Current Report on Form 8-K filed on January 29, 2008.)
10.7*	Boston Properties, Inc. 1999 Non-Qualified Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.59 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 15, 2005.)
10.8*	First Amendment to the Boston Properties, Inc. 1999 Non-Qualified Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.60 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 15, 2005.)
10.9*	Second Amendment to the Boston Properties, Inc. 1999 Non-Qualified Employee Stock Purchase Plan. (Incorporated by reference to Exhibit 10.61 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 15, 2005.)

10.10*	Boston Properties Deferred Compensation Plan, Amended and Restated Effective as of January 1, 2009. (Incorporated by reference to Exhibit 10.10 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.11*	Employment Agreement by and between Mortimer B. Zuckerman and Boston Properties, Inc. dated as of January 17, 2003. (Incorporated by reference to Exhibit 10.7 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.12*	First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Mortimer B. Zuckerman. (Incorporated by reference to Exhibit 10.1 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.13*	Second Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Mortimer B. Zuckerman. (Incorporated by reference to Exhibit 10.13 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.14*	Amended and Restated Employment Agreement by and between Edward H. Linde and Boston Properties, Inc. dated as of November 29, 2002. (Incorporated by reference to Exhibit 10.8 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.15*	First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Edward H. Linde. (Incorporated by reference to Exhibit 10.2 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.16*	Second Amendment to Amended and Restated Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Edward H. Linde. (Incorporated by reference to Exhibit 10.16 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.17*	Employment Agreement by and between Douglas T. Linde and Boston Properties, Inc. dated as of November 29, 2002. (Incorporated by reference to Exhibit 10.12 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.18*	First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Douglas T. Linde. (Incorporated by reference to Exhibit 10.3 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.19*	Second Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Douglas T. Linde. (Incorporated by reference to Exhibit 10.19 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.20*	Amended and Restated Employment Agreement by and between Raymond A. Ritchey and Boston Properties, Inc. dated as of November 29, 2002. (Incorporated by reference to Exhibit 10.15 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.21*	First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Raymond A. Ritchey. (Incorporated by reference to Exhibit 10.4 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.22*	Second Amendment to Amended and Restated Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Raymond A. Ritchey. (Incorporated by reference to Exhibit 10.22 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.23*	Amended and Restated Employment Agreement by and between E. Mitchell Norville and Boston Properties, Inc. dated as of August 25, 2005. (Incorporated by reference to Exhibit 10.1 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2005.)

10.24*	First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and E. Mitchell Norville. (Incorporated by reference to Exhibit 10.5 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.25*	Second Amendment to Amended and Restated Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and E. Mitchell Norville. (Incorporated by reference to Exhibit 10.25 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.26*	Employment Agreement by and between Michael E. LaBelle and Boston Properties, Inc. dated as of January 24, 2008. (Incorporated by reference to Exhibit 10.2 to Boston Properties, Inc. s Current Report on Form 8-K filed on January 29, 2008.)
10.27*	First Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Michael E. LaBelle. (Incorporated by reference to Exhibit 10.27 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.28*	Employment Agreement by and between Peter D. Johnston and Boston Properties, Inc. dated as of August 25, 2005. (Incorporated by reference to Exhibit 10.2 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2005.)
10.29*	First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Peter D. Johnston. (Incorporated by reference to Exhibit 10.6 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.30*	Second Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Peter D. Johnston. (Incorporated by reference to Exhibit 10.30 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.31*	Employment Agreement by and between Bryan J. Koop and Boston Properties, Inc. dated as of November 29, 2002. (Incorporated by reference to Exhibit 10.10 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.32*	First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Bryan J. Koop. (Incorporated by reference to Exhibit 10.7 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.33*	Second Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Bryan J. Koop. (Incorporated by reference to Exhibit 10.33 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.34*	Amended and Restated Employment Agreement by and between Robert E. Selsam and Boston Properties, Inc. dated as of November 29, 2002. (Incorporated by reference to Exhibit 10.16 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.35*	First Amendment to Amended and Restated Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Robert E. Selsam. (Incorporated by reference to Exhibit 10.8 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.36*	Second Amendment to Amended and Restated Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Robert E. Selsam. (Incorporated by reference to Exhibit 10.36 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.37*	Compensation Agreement between Boston Properties, Inc. and Robert E. Selsam, dated as of August 10, 1995 relating to 90 Church Street. (Incorporated by reference to Exhibit 10.26 to Boston Properties, Inc. s Registration Statement on Form S-11, File No. 333-25279.)
10.38*	Employment Agreement by and between Robert E. Pester and Boston Properties, Inc. dated as of December 16, 2002. (Incorporated by reference to Exhibit 10.14 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)

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10.39*	First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Robert E. Pester. (Incorporated by reference to Exhibit 10.9 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.40*	Second Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Robert E. Pester. (Incorporated by reference to Exhibit 10.40 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.41*	Employment Agreement by and between Mitchell S. Landis and Boston Properties, Inc. dated as of November 26, 2002. (Incorporated by reference to Exhibit 10.11 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.42*	First Amendment to Employment Agreement, dated as of November 1, 2007, by and between Boston Properties, Inc. and Mitchell S. Landis. (Incorporated by reference to Exhibit 10.10 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.43*	Second Amendment to Employment Agreement, dated as of December 15, 2008, by and between Boston Properties, Inc. and Mitchell S. Landis. (Incorporated by reference to Exhibit 10.43 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.44*	Senior Executive Severance Agreement by and among Boston Properties, Inc., Boston Properties Limited Partnership and Mortimer B. Zuckerman. (Incorporated by reference to Exhibit 10.17 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.45*	First Amendment to the Senior Executive Severance Agreement, dated as of November 1, 2007, by and among Boston Properties, Inc., Boston Properties Limited Partnership and Mortimer B. Zuckerman. (Incorporated by reference to Exhibit 10.11 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.46*	Second Amendment to the Senior Executive Severance Agreement, dated as of December 15, 2008, by and among Boston Properties, Inc., Boston Properties Limited Partnership and Mortimer B. Zuckerman. (Incorporated by reference to Exhibit 10.46 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.47*	Senior Executive Severance Agreement by and among Boston Properties, Inc., Boston Properties Limited Partnership and Edward H. Linde. (Incorporated by reference to Exhibit 10.18 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.48*	First Amendment to the Senior Executive Severance Agreement, dated as of November 1, 2007, by and among Boston Properties, Inc., Boston Properties Limited Partnership and Edward H. Linde. (Incorporated by reference to Exhibit 10.12 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.49*	Second Amendment to the Senior Executive Severance Agreement, dated as of December 15, 2008, by and among Boston Properties, Inc., Boston Properties Limited Partnership and Edward H. Linde. (Incorporated by reference to Exhibit 10.49 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.50*	Boston Properties, Inc. Senior Executive Severance Plan. (Incorporated by reference to Exhibit 10.19 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.51*	First Amendment to the Boston Properties, Inc. Senior Executive Severance Plan, dated as of October 18, 2007. (Incorporated by reference to Exhibit 10.13 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.52*	Second Amendment to the Boston Properties, Inc. Senior Executive Severance Plan, dated as of December 15, 2008. (Incorporated by reference to Exhibit 10.52 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)

10.53*	Boston Properties, Inc. Executive Severance Plan, dated as of July 30, 1998. (Incorporated by reference to Exhibit 10.20 to Boston Properties, Inc. s Annual Report on Form 10-K filed on February 27, 2003.)
10.54*	First Amendment to the Boston Properties, Inc. Executive Severance Plan, dated as of October 18, 2007. (Incorporated by reference to Exhibit 10.14 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.55*	Boston Properties, Inc. Officer Severance Plan, dated as of July 30, 1998. (Incorporated by reference to Exhibit 10.15 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.56*	First Amendment to the Boston Properties, Inc. Officer Severance Plan, dated as of October 18, 2007. (Incorporated by reference to Exhibit 10.16 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on November 9, 2007.)
10.57*	Second Amendment to the Boston Properties, Inc. Officer Severance Plan, dated as of December 15, 2008. (Incorporated by reference to Exhibit 10.57 to Boston Properties, Inc. s Annual Report on Form 10-K filed on March 2, 2009.)
10.58*	Form of Indemnification Agreement by and among Boston Properties, Inc., Boston Properties Limited Partnership and certain officers and directors of the Company. (Incorporated by reference to Exhibit 10.1 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on August 9, 2004.)
10.59	Fifth Amended and Restated Revolving Credit Agreement, dated as of August 3, 2006, among Boston Properties Limited Partnership and the banks identified therein and Bank of America, N.A. as administrative agent, swingline lender and fronting bank, JPMorgan Chase Bank, N.A. as syndication agent, and Eurohypo AG-New York Branch, Keybank National Association, Wells Fargo Bank National Association as documentation agents, with The Bank of New York, Citicorp North America, Inc., Citizens Bank of Massachusetts, Deutsche Bank Trust Company, PNC Bank-National Association as co-managing agents and J.P. Morgan Securities Inc. and Banc of America Securities LLC acting as joint lead arrangers and joint bookrunners. (Incorporated by reference to Exhibit 10.2 to Boston Properties, Inc. s Quarterly Report on Form 10-Q filed on August 9, 2006.)
10.60	Commitment Increase Agreement, dated as of June 6, 2008, among Boston Properties Limited Partnership and the lenders identified therein. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Boston Properties, Inc. filed on June 12, 2008.)
10.61	Commitment Increase Agreement, dated as of July 21, 2008, among Boston Properties Limited Partnership and the lenders identified therein. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Boston Properties, Inc. filed on July 23, 2008.)
10.62	Contribution Agreement, dated as of May 23, 2008, between Fifth Avenue 58/59 Acquisition Co. L.P., BP 767 Fifth LLC and 767 Venture, LLC, and (for purposes of Sections 10(h), 18, 20(c)(i) and 38(c)) Boston Properties Limited Partnership. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Boston Properties, Inc. filed on May 28, 2008.)
10.63	Purchase and Sale Agreement, dated as of May 23, 2008, between 125 West 55th Street Owner LLC, Two Grand Central Tower LLC, 540 Investment Land Company LLC, 540 Madison Avenue Lease LLC and BP Manhattan LLC, and (for purposes of Sections 10(h), 20(c)(i), 38(e) and 38(f)) Boston Properties Limited Partnership. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Boston Properties, Inc. filed on May 28, 2008.)
10.64	Contribution Agreement, dated as of May 23, 2008, between Fifth Avenue 58/59 Acquisition Co. L.P. and Boston Properties Limited Partnership. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Boston Properties, Inc. filed on May 28, 2008.)

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12.1	Statement re Computation of Ratios. (Filed herewith.)
21.1	Subsidiaries of Boston Properties, Inc. (Filed herewith.)
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting firm. (Filed herewith.)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (Filed herewith.)
32.1	Section 1350 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith.)
32.2	Section 1350 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (Furnished herewith.)
101	The following materials from Boston Properties, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Cash Flows, and (v) related notes to these financial statements, tagged as blocks of text.

* Indicates management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, Boston Properties, Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Boston Properties, Inc.
Date: February 25, 2010	By: /s/ Michael E. LaBelle Michael E. LaBelle Senior Vice President, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant, and in the capacities and on the dates indicated.

February 25, 2010	By: /s/ Mortimer B. Zuckerman Mortimer B. Zuckerman
	Chairman of the Board and Chief Executive Officer
	By: /s/ Douglas T. Linde Douglas T. Linde Director and President
	By: /s/ Lawrence S. Bacow Lawrence S. Bacow Director
	By: /s/ Zoë Baird Zoë Baird Director
	By: /s/ Carol B. Einiger Carol B. Einiger
	Director
	By: /s/ Frederick J. Iseman Frederick J. Iseman
	Director
	By: /s/ Alan J. Patricof Alan J. Patricof Director
	By: /s/ Richard E. Salomon Richard E. Salomon Director

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By: /s/ Martin Turchin
Martin Turchin
Director

By: /s/ David A. Twardock
David A. Twardock
Director

By: /s/ Michael E. LaBelle
Michael E. LaBelle
Senior Vice President, Chief Financial Officer and Principal Financial Officer

By: /s/ Arthur S. Flashman
Arthur S. Flashman
Vice President, Controller and Principal Accounting Officer