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BOSTON PROPERTIES INC
Form 8-K/A
December 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 2 TO
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): SEPTEMBER 25, 2002

BOSTON PROPERTIES, INC.
(Exact name of Registrant as specified in its charter)

| | | |
|---|-------------------------------------|--|
| DELAWARE (State or other jurisdiction of incorporation) | 1-13087 (Commission file number) | 04-2473675 (IRS employer identification no.) |
|---|-------------------------------------|--|

111 HUNTINGTON AVENUE, SUITE 300
BOSTON, MASSACHUSETTS 02199-7610
(Address of principal executive offices) (Zip Code)

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

Boston Properties, Inc. (the "Company") hereby amends its Current Report on Form 8-K dated September 25, 2002, filed with the Securities and Exchange Commission on October 8, 2002 and as amended on Form 8-K/A filed with the Securities and Exchange Commission on December 4, 2002, to (i) update Item 5 below to describe the closing of an offering of unsecured senior notes and (ii) amend Item 7 in its entirety to update required financial statements, pro forma financial information and certain exhibits.

ITEM 5. OTHER EVENTS

On November 22, 2002, the Company disposed of One and Two Independence Square, two Class A office properties consisting of approximately 900,000 square feet located in Washington, D.C. for gross proceeds of approximately \$345.0 million. The Company used the net proceeds to repay the mortgage financing related to these properties totaling approximately \$189.1 million and to pay down other unsecured indebtedness.

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On December 13, 2002, Boston Properties Limited Partnership, the Company's operating partnership, closed an offering of \$750 million in aggregate principal amount of its 6.25% senior unsecured notes due 2013 (the "Offering"). The notes were priced at 99.65% of their face amount to yield 6.296%.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) Financial Statements under Rule 3-14 of Regulation S-X:

Combined Statements of Revenue over Certain Operating Expenses of 399 Park Avenue for the period from January 1, 2002 through September 24, 2002 (unaudited) and for the year ended December 31, 2001.

(b) Pro Forma Financial Information:

Pro Forma Consolidated Balance Sheet as of September 30, 2002 (unaudited).

Pro Forma Consolidated Statements of Operations for the nine months ended September 30, 2002 (unaudited) and for the year ended December 31, 2001 (unaudited).

(c) Exhibits

EXHIBIT NO.

- 4.1 Indenture, dated as of December 13, 2002, by and between Boston Properties Limited Partnership and The Bank of New York, as Trustee.
- 4.2 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.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 99.1 Purchase and Sale Agreement, dated as of August 28, 2002, by and between Citibank, N.A. and BP 399 Park Avenue LLC. *
- 99.2 Credit Agreement, dated as of September 25, 2002, by and among BPLP, BP 399 Park Avenue LLC, certain other BPLP subsidiaries, and the banks and others that are parties thereto. *

*Previously filed.

S I G N A T U R E S

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

Date: December 13, 2002

BOSTON PROPERTIES, INC.

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By: /s/ Douglas T. Linde

Douglas T. Linde
Chief Financial Officer

Report of Independent Accountants

To the Board of Directors and Stockholders of
Boston Properties, Inc.:

We have audited the accompanying combined statement of revenue over certain operating expenses (the "Statement") of 399 Park Avenue (the "Property") for the year ended December 31, 2001. This Statement is the responsibility of the Property's management. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in the current report on Form 8-K/A of Boston Properties, Inc. dated September 25, 2002) as described in Note 2 and is not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2), of the Property for the year ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

November 22, 2002

399 PARK AVENUE
COMBINED STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

(in thousands)

| | For the period from January 1, 2002 through September 24, 2002 | For the year ended December 31, 2001 |
|-------------------------|--|--|
| | ----- | ----- |
| | (Unaudited) | |
| Revenue (Note 2): | | |
| Base rent | \$50,897 | \$37,035 |
| Recoveries from tenants | 1,361 | 1,688 |
| | ----- | ----- |

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| | | |
|---|----------|----------|
| | 52,258 | 38,723 |
| | ----- | ----- |
| Certain operating expenses (Note 2): | | |
| Repairs and maintenance | 4,428 | 4,685 |
| Janitorial and cleaning | 2,775 | 3,519 |
| Security | 891 | 1,208 |
| Utilities | 2,639 | 3,944 |
| General and administrative | 391 | 1,111 |
| Insurance | 199 | 269 |
| Real estate taxes | 10,026 | 13,151 |
| | ----- | ----- |
| | 21,349 | 27,887 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses | \$30,909 | \$10,836 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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399 PARK AVENUE
NOTES TO THE COMBINED STATEMENTS OF REVENUE
OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY

The accompanying combined statements of revenue over certain operating expenses (the "Statement") includes the operations of an approximately 1.7 million square foot Class A office tower known as 399 Park Avenue (the "Property"), which was operated as two separate condominium units, located in New York City, New York. On September 25, 2002, the Property was acquired by Boston Properties, Inc. (the "Company") through its subsidiary Boston Properties Limited Partnership from Citibank, N.A. ("Citibank"). Citibank occupies approximately 696,000 square feet of space at the Property at September 30, 2002.

Total consideration for the acquisition was approximately \$1.06 billion, which was financed with a \$1.0 billion unsecured bridge loan, and the balance with cash.

2. BASIS OF ACCOUNTING

The accompanying Statement has been prepared on the accrual basis of accounting but is not representative of the actual operations of the Property for the periods shown. The Statement has been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, this Statement excludes revenue attributable to the Citibank owner-occupied space in condominium unit two and certain historical expenses not comparable to the operations of the Property after acquisition such as certain ancillary income, amortization, depreciation, interest, certain owner occupant expenses, corporate expenses and certain other costs not directly related to the future operations of the Property.

3. SIGNIFICANT ACCOUNTING POLICIES

RENTAL REVENUE

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Rental revenue is recognized on a straight-line basis over the terms of the related leases. The excess of recognized rentals over amounts due pursuant to lease terms is recorded as accrued rent. The impact of the straight-line rent adjustment increased revenue by approximately \$64,000 and \$4,585,000 for the year ended December 31, 2001 and for the period from January 1, 2002 through September 24, 2002 (unaudited), respectively.

UNAUDITED INTERIM INFORMATION

The Statement for the period from January 1, 2002 through September 24, 2002 is unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such Statement (in accordance with the Basis of Accounting as described in Note 2) have been included. The results of operations for the period are not necessarily indicative of the Property's future results of operations.

USE OF ESTIMATES

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

4. DESCRIPTION OF LEASING ARRANGEMENTS

The office and retail space is leased to tenants under leases with terms that vary in length. Certain leases contain reimbursement clauses and renewal options. Minimum lease payments due under noncancelable operating leases in effect as of September 25, 2002 (unaudited), for the remainder of 2002 and annually thereafter are as follows:

399 PARK AVENUE
NOTES TO THE COMBINED STATEMENTS OF REVENUE
OVER CERTAIN OPERATING EXPENSES

| | Amount (1) (in thousands) |
|---------------------------|------------------------------|
| | ----- |
| 2002 (9/25/02 - 12/31/02) | \$ 27,040 |
| 2003 | 110,804 |
| 2004 | 111,070 |
| 2005 | 110,700 |
| 2006 | 105,839 |
| 2007 | 100,820 |
| Thereafter | 966,544 |

(1) Includes the addition of minimum lease payments that Citibank will owe under terms of the lease agreement signed concurrent with the Company's acquisition of the Property.

As of September 25, 2002, two tenants occupied approximately 68% of the leasable square feet of the Property.

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BOSTON PROPERTIES, INC.
 PRO FORMA CONSOLIDATED BALANCE SHEET
 INTRODUCTION TO THE PRO FORMA CONSOLIDATED BALANCE SHEET
 September 30, 2002
 (Unaudited)

The accompanying unaudited Pro Forma Consolidated Balance Sheet of Boston Properties, Inc. (the "Company") is presented as if the offering of unsecured senior notes by its operating partnership, Boston Properties Limited Partnership, and the application of the estimated net proceeds thereof (the "Offering") and the disposition of One and Two Independence Square, which occurred subsequent to September 30, 2002, had been consummated on September 30, 2002.

Such pro forma information is based on the historical Consolidated Balance Sheet of the Company as of that date, giving effect to the transactions described above. This Pro Forma Consolidated financial information should be read in conjunction with Form 10-Q for the nine months ended September 30, 2002 (unaudited). In management's opinion, all adjustments necessary to reflect the above transactions have been made.

The following Pro Forma Consolidated Balance Sheet is not necessarily indicative of what the actual financial position would have been assuming the above transactions had been consummated on September 30, 2002 nor does it purport to represent the future financial position of the Company.

BOSTON PROPERTIES, INC.
 PRO FORMA CONSOLIDATED BALANCE SHEET
 SEPTEMBER 30, 2002
 (UNAUDITED)
 (DOLLARS IN THOUSANDS, EXCEPT FOR SHARE AMOUNTS)

| | SEPTEMBER 30, 2002 ----- | DISPOSITION ONE AND TWO INDEPENDENCE SQUARE ----- |
|--|--------------------------------|---|
| ASSETS | | |
| Real estate: | \$ 8,766,200 | \$ (145,674) |
| Less: accumulated depreciation | (836,418) | 40,491 |
| | ----- | ----- |
| Total real estate | 7,929,782 | (105,183) |
| Cash and cash equivalents | 28,793 | -- |
| Escrows | 28,200 | (41) |
| Tenant and other receivables, net | 48,716 | (3,002) |
| Accrued rental income, net | 156,818 | (3,151) |
| Deferred charges, net | 148,435 | (936) |
| Prepaid expenses and other assets | 38,752 | -- |
| Investments in unconsolidated joint ventures | 101,819 | -- |
| | ----- | ----- |
| Total assets | \$ 8,481,315 | \$ (112,313) |
| | ===== | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

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Liabilities:

| | | |
|--|--------------|--------------|
| Mortgage notes and bonds payable | \$ 4,422,692 | \$ (189,129) |
| Unsecured senior notes, net | -- | -- |
| Unsecured bridge loan | 1,000,000 | (144,859) |
| Unsecured line of credit | 44,000 | -- |
| Accounts payable and accrued expenses | 69,236 | (2,526) |
| Dividends and distributions payable | 81,190 | -- |
| Interest rate contracts | 15,115 | -- |
| Accrued interest payable | 18,265 | (220) |
| Other liabilities | 70,292 | (1,254) |
| | ----- | ----- |
| Total liabilities | 5,720,790 | (337,988) |
| | ----- | ----- |
| Minority interests | 804,229 | 39,944 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Excess stock, \$.01 par value, 150,000,000 shares authorized, none issued or outstanding | -- | -- |
| Common stock, \$.01 par value, 250,000,000 shares authorized, 95,352,102 issued and 95,273,202 outstanding | 953 | -- |
| Additional paid-in capital | 1,977,560 | -- |
| Dividends in excess of earnings | (2,532) | 185,731 |
| Treasury common stock, at cost | (2,722) | -- |
| Unearned compensation | (3,355) | -- |
| Accumulated other comprehensive loss | (13,608) | -- |
| | ----- | ----- |
| Total stockholders' equity | 1,956,296 | 185,731 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 8,481,315 | \$ (112,313) |
| | ===== | ===== |

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

BOSTON PROPERTIES, INC.
NOTES TO THE PRO FORMA
CONSOLIDATED BALANCE SHEET
September 30, 2002
(Unaudited)

- (A) Represents the elimination of the net book value of One and Two Independence Square at September 30, 2002.
- (B) Represents the elimination of the certain assets and liabilities of One and Two Independence Square at September 30, 2002.
- (C) Represents the elimination of the net book value of deferred leasing and financing charges of One and Two Independence Square at September 30, 2002.
- (D) Represents the repayment of the mortgage financing related to the disposition of One and Two Independence Square.
- (E) Represents the partial pay down of the unsecured bridge loan using the excess proceeds from the sale of One and Two Independence Square after the repayment of the mortgage financing.
- (F) Represents the net increase in and rebalancing of Stockholders' Equity and Minority Interests as a result of the sale of One and Two Independence

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Square.

- (G) Reflects the offering of \$750 million of unsecured senior notes due 2013, recorded at the aggregate issue price of 99.65% (before the payment of expenses related to the offering). The \$2.6 million of debt discount will be amortized over the term of the notes. The following reflects the use of proceeds from the offering of unsecured senior notes:

| | |
|--|----------------|
| Proceeds from the \$750 million unsecured senior notes, net of \$2.6 million debt discount | (IN THOUSANDS) |
| Offering costs incurred in connection with the issuance of the unsecured senior notes | \$74 |
| Net proceeds used to pay down the unsecured bridge loan | (|
| | ----- |
| | \$74 |
| | ===== |

BOSTON PROPERTIES, INC.
 PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
 INTRODUCTION TO THE PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
 For the nine months ended September 30, 2002 and the year ended
 December 31, 2001
 (Unaudited)

The accompanying unaudited Pro Forma Consolidated Statements of Operations for the nine months ended September 30, 2002 and for the year ended December 31, 2001 are presented as if i) the acquisition on September 25, 2002 of 399 Park Avenue and related unsecured bridge financing, ii) the disposition on November 22, 2002 of One and Two Independence Square and related mortgage financing repayment and unsecured bridge financing repayment and iii) the Offering had occurred on January 1, 2001.

These Pro Forma Consolidated Statements of Operations should be read in conjunction with the historical consolidated financial statements and notes thereto of the Company, reported on Form 10-K for the year ended December 31, 2001 and on Form 10-Q for the nine months ended September 30, 2002.

The unaudited Pro Forma Consolidated financial information prepared by Boston Properties' management is not necessarily indicative of what the actual results of operations would have been for the nine months ended September 30, 2002 or for the year ended December 31, 2001, had the previously described transactions actually occurred on January 1, 2001 and the effect thereof carried forward through the nine month period ended September 30, 2002, nor do they purport to present the future results of operations of the Company.

BOSTON PROPERTIES, INC.
 PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002
 (UNAUDITED)
 (DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

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NINE MONTHS
ENDED
SEPTEMBER 30,
2002

| | |
|---|------------|
| Revenue | |
| Rental: | |
| Base rent | \$ 713,447 |
| Recoveries from tenants | 87,080 |
| Parking and other | 37,610 |
| | ----- |
| Total rental revenue | 838,137 |
| Hotel revenue | 20,007 |
| Development and management services | 9,440 |
| Interest and other | 4,804 |
| | ----- |
| Total revenue | 872,388 |
| | ----- |
| Expenses | |
| Operating: | |
| Rental | 265,696 |
| Hotel | 13,524 |
| General and administrative | 34,589 |
| Interest | 199,539 |
| Depreciation and amortization | 132,274 |
| Net derivative losses | 10,413 |
| Loss on investments in securities | 4,297 |
| | ----- |
| Total expenses | 660,332 |
| | ----- |
| Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gain on sale of land held for development, preferred dividend and discontinued operations | 212,056 |
| Minority interests in property partnerships | 1,903 |
| Income from unconsolidated joint ventures | 5,871 |
| | ----- |
| Income before minority interest in Operating Partnership, gain on sale of land held for development, preferred dividend and discontinued operations | 219,830 |
| Minority interest in Operating Partnership | (56,701) |
| | ----- |
| Income before gain on sale of land held for development, preferred dividend and discontinued operations | 163,129 |
| Gain on sale of land held for development, net of minority interest | 3,644 |
| | ----- |
| Income before preferred dividend and discontinued operations | 166,773 |
| Preferred dividend | (3,412) |
| | ----- |
| Income before discontinued operations | \$ 163,361 |
| | ===== |
| Basic earnings per share: | ----- |
| Income before discontinued operations | \$ 1.77 |
| | ===== |
| | |
| Weighted average number of common shares outstanding | 92,413 |
| | ===== |
| Diluted earnings per share: | ----- |

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| | |
|--|-------------|
| Income before discontinued operations | \$ 1.74 |
| | ===== |
| Weighted average number of common and common equivalent shares outstanding | 94,026 |
| | ===== |
| | THE |
| | OFFERING |
| | ----- |
| Revenue | |
| Rental: | |
| Base rent | \$ -- |
| Recoveries from tenants | -- |
| Parking and other | -- |
| | ----- |
| Total rental revenue | -- |
| Hotel revenue | -- |
| Development and management services | -- |
| Interest and other | -- |
| | ----- |
| Total revenue | -- |
| | ----- |
| Expenses | |
| Operating: | |
| Rental | -- |
| Hotel | -- |
| General and administrative | -- |
| Interest | 17,624 (E) |
| Depreciation and amortization | -- |
| Net derivative losses | -- |
| Loss on investments in securities | -- |
| | ----- |
| Total expenses | 17,624 |
| | ----- |
| Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gain on sale of land held for development, preferred dividend and discontinued operations | (17,624) |
| Minority interests in property partnerships | -- |
| Income from unconsolidated joint ventures | -- |
| | ----- |
| Income before minority interest in Operating Partnership, gain on sale of land held for development, preferred dividend and discontinued operations | (17,624) |
| Minority interest in Operating Partnership | 3,195 (D) |
| | ----- |
| Income before gain on sale of land held for development, preferred dividend and discontinued operations | (14,429) |
| Gain on sale of land held for development, net of minority interest | -- |
| | ----- |
| Income before preferred dividend and discontinued operations | (14,429) |
| Preferred dividend | -- |
| | ----- |
| Income before discontinued operations | \$ (14,429) |
| | ===== |
| Basic earnings per share: | |

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Income before discontinued operations

Weighted average number of common shares outstanding

Diluted earnings per share:

Income before discontinued operations

Weighted average number of common and common
equivalent shares outstanding

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

BOSTON PROPERTIES, INC.
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2001
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

| | YEAR ENDED DECEMBER 31, 2001 |
|---|------------------------------------|
| | |
| Revenue | |
| Rental: | |
| Base rent | \$ 843,854 |
| Recoveries from tenants | 107,025 |
| Parking and other | 51,999 |
| | ----- |
| Total rental revenue | 1,002,878 |
| Development and management services | 13,190 |
| Interest and other | 12,183 |
| | ----- |
| Total revenue | 1,028,251 |
| | ----- |
| Expenses | |
| Operating | 311,371 |
| General and administrative | 38,312 |
| Interest | 223,389 |
| Depreciation and amortization | 149,348 |
| Net derivative losses | 26,488 |
| Loss on investments in securities | 6,500 |
| | ----- |
| Total expenses | 755,408 |
| | ----- |
| Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gain on sale of real estate, preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | 272,843 |
| Minority interests in property partnerships | 1,085 |

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| | |
|--|------------|
| Income from unconsolidated joint ventures | 4,186 |
| | ----- |
| Income before minority interest in Operating Partnership, gain on sale of real estate, preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | 278,114 |
| Minority interest in Operating Partnership | (74,832) |
| | ----- |
| Income before gain on sale of real estate, preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | 203,282 |
| Gain on sale of real estate, net of minority interest | 9,089 |
| | ----- |
| Income before preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | 212,371 |
| Preferred dividend | (6,592) |
| | ----- |
| Income before discontinued operations and cumulative effect of a change in accounting principle | \$ 205,779 |
| | ===== |
| Basic earnings per share: | |
| Income before discontinued operations and cumulative effect of a change in accounting principle | \$ 2.28 |
| | ===== |
| Weighted average number of common shares outstanding | 90,002 |
| | ===== |
| Diluted earnings per share: | |
| Income before discontinued operations and cumulative effect of a change in accounting principle | \$ 2.23 |
| | ===== |
| Weighted average number of common and common equivalent shares outstanding | 92,200 |
| | ===== |

THE
OFFERING

| | |
|-------------------------------------|------------|
| Revenue | |
| Rental: | |
| Base rent | \$ -- |
| Recoveries from tenants | -- |
| Parking and other | -- |
| | ----- |
| Total rental revenue | -- |
| Development and management services | -- |
| Interest and other | -- |
| | ----- |
| Total revenue | -- |
| | ----- |
| Expenses | |
| Operating | -- |
| General and administrative | -- |
| Interest | 23,116 (E) |
| Depreciation and amortization | -- |
| Net derivative losses | -- |
| Loss on investments in securities | -- |
| | ----- |

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| | |
|--|------------|
| Total expenses | 23,116 |
| | ----- |
| Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gain on sale of real estate, preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | (23,116) |
| Minority interests in property partnerships | -- |
| Income from unconsolidated joint ventures | -- |
| | ----- |
| Income before minority interest in Operating Partnership, gain on sale of real estate, preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | (23,116) |
| Minority interest in Operating Partnership | 4,339 (D) |
| | ----- |
| Income before gain on sale of real estate, preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | (18,777) |
| Gain on sale of real estate, net of minority interest | -- |
| | ----- |
| Income before preferred dividend, discontinued operations and cumulative effect of a change in accounting principle | (18,777) |
| Preferred dividend | -- |
| | ----- |
| Income before discontinued operations and cumulative effect of a change in accounting principle | \$(18,777) |
| | ===== |
| Basic earnings per share: | |
| Income before discontinued operations and cumulative effect of a change in accounting principle | |
| Weighted average number of common shares outstanding | |
| Diluted earnings per share: | |
| Income before discontinued operations and cumulative effect of a change in accounting principle | |
| Weighted average number of common and common equivalent shares outstanding | |

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

BOSTON PROPERTIES, INC.
NOTES TO THE PRO FORMA
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

The Pro Forma Consolidated Statements of Operations reflect the Offering, the historical results of operations of One and Two Independence Square and the historical results of operations as reflected in the Combined Statements of Revenue Over Certain Operating Expenses (the "Statement") of 399 Park Avenue, as adjusted for base rent, interest expense and depreciation and amortization for the year ended December 31, 2001 and the period from January 1, 2002 through September 24, 2002 (unaudited).

(A) Base Rent includes adjustments based on the pro forma acquisition date of

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January 1, 2001 as follows (dollars in thousands):

| | Period from January 1, 2002 through September 24, 2002 | Year ended December 31, 2001 |
|------------------------------------|--|------------------------------------|
| | ----- | ----- |
| Base Rent per the Statement | \$50,897 | \$37,035 |
| Pro Forma Base Rent Adjustment (1) | 33,469 | 76,431 |
| | ----- | ----- |
| Pro Forma Base Rent | \$84,366 | \$113,466 |
| | ===== | ===== |

(1) Concurrent with the acquisition of 399 Park Avenue, the Company entered into a leasing arrangement with Citibank. The amounts above include an adjustment to base rent to reflect rental income attributed to Citibank's occupied space in the pro forma periods. The straight-line rent adjustment is based on the contractual lease terms entered into by Citibank and the Company at the acquisition date of 399 Park Avenue for Citibank occupied space and is also based on the terms related to space occupied by Citibank through November 2001 and subsequently leased to another tenant. The amount above also includes an adjustment to straight-line rent for pro forma purposes.

- (B) Reflects the net increase in interest expense as a result of the unsecured bridge financing obtained in connection with the acquisition of 399 Park Avenue and the repayment of the mortgage financing and a partial repayment of the unsecured bridge financing in conjunction with the disposition of One and Two Independence Square. The unsecured bridge financing totaling \$1.0 billion requires payments of interest only at a current variable rate of Eurodollar + 1.45% and matures in September 2003. The debt financing repaid in connection with the disposition of Independence Square One and Two consists of the following: a \$75.0 million loan secured by One Independence Square which bears interest at a variable rate of LIBOR + 1.60% (3.42% at September 30, 2002), a \$114.1 million loan secured by Two Independence Square which bears interest at an increasing fixed rate with a current fixed rate of 8.50% and an effective interest rate of 8.09% and an approximately \$144.9 million pay down of the unsecured bridge loan with the net proceeds from the disposition of One and Two Independence Square.

The interest rate of 3.27% and 3.33% used in the Pro Forma Consolidated Statements of Operations is equal to the one-month LIBOR rate at September 30, 2002 and December 31, 2001, respectively, plus 145 basis points. The effect on the Pro Forma Consolidated Statements of Operations for a 1/8% change in rates is approximately \$2.6 million and \$3.5 million for the nine months ended September 30, 2002 and the year ended December 31, 2001, respectively.

- (C) Reflects the pro forma depreciation and amortization expense for 399 Park Avenue offset by the depreciation and amortization expense related to the disposition of One and Two Independence Square. Depreciation for 399 Park Avenue is based on a preliminary allocation of the purchase price to land, building and other assets and is subject to change as additional information is obtained. Depreciation expense is computed over an estimated useful life of 40 years for the building.

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BOSTON PROPERTIES, INC.
 NOTES TO THE PRO FORMA
 CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)

- (D) Reflects an adjustment for the minority interest in the Operating Partnership's share of pro forma income before discontinued operations and the cumulative effect of a change in accounting principle.
- (E) Reflects the incremental interest expense on the \$750 million unsecured senior notes due 2013 assuming a \$740.9 million pay down of the unsecured bridge loan with the net proceeds from the issuance of the notes. The incremental interest expense is the result of the interest rate on the unsecured senior notes of 6.25% as compared to the interest rate on the unsecured bridge loan which bears interest at Eurodollar + 1.45% (3.27% and 3.33% at September 30, 2002 and December 31, 2001, respectively). The adjustment, as detailed below, also includes amortization of the discount on the unsecured senior notes and deferred financing costs for the nine months ended September 30, 2002 and the year ended December 31, 2001, as follows:

| (amounts in thousands) | For the nine months ended September 30, 2002 | Fo De |
|--|---|----------|
| | ----- | --- |
| Incremental interest (as described above) | \$ 16,940 | |
| Amortization of debt discount on unsecured senior notes | 196 | |
| Amortization of deferred financing costs on the unsecured senior notes | 488 | |
| | ----- | --- |
| Total | \$ 17,624 | |
| | ===== | === |