QuickLinks -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported):
July 30, 2003

Boston Properties, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**1-13087**	**04-2473675**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

111 Huntington Avenue, Suite 300
Boston, Massachusetts 02199-7610
(Address of principal executive offices and zip code)

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

ITEM 5. Other Events.

Boston Properties, Inc. (the "Company") is revising its historical financial statements in connection with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") and SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). During 2003, the Company sold certain properties and in compliance with SFAS 144 has reported revenue, expenses and gain on sale from these properties as income from discontinued operations for each period presented in its quarterly report filed since the date of the sales (including the comparable period of the prior year). Under SEC requirements the same reclassification as discontinued operations required by SFAS 144 following the sale of properties is required for previously issued annual financial statements for each of the three years shown in the Company's last annual report on Form 10-K, if those financials are incorporated by reference in subsequent filings with the SEC made under the Securities Act of 1933, as amended, even though those financial statements relate to periods prior to the date of the sale. In addition, in accordance with SFAS 145, the Company has reclassified losses from the extinguishment of debt from extraordinary items to losses from continuing operations in its consolidated statements of operations for each of the three years shown in the Company's Form 10-K. These reclassifications have no effect on the Company's reported net income available to common shareholders or funds from operations ("FFO"). This Report on Form 8-K updates Items 6, 7, 8 and 15 of the Company's Form 10-K to reflect those properties sold during 2003 as discontinued operations and to reflect losses from extinguishments of debt as losses from continuing operations. All other items of the Form 10-K remain unchanged. No attempt has been made to update matters in the Form 10-K except to the extent expressly provided above.

ITEM 7. Exhibits.

Exhibit No.	
23.1	Consent of Independent Accountants
99.1	Revised financial information for the years ended December 31, 2002, 2001 and 2000 for the adoption of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections"

SIGNATURES

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

Date: July 30, 2003

BOSTON PROPERTIES, INC.

By: /s/ DOUGLAS T. LINDE

Name: Douglas T. Linde
Title: Chief Financial Officer

QuickLinks

SIGNATURES

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements of Boston Properties, Inc. on Forms S-3 (File Numbers, 333-101255, 333-92402, 333-36142, 333-39114, 333-40618, 333-51024, 333-58694, 333-60219, 333-61799, 333-64902, 333-68379, 333-69375, 333-70765, 333-80513, 333-81355, 333-82498, 333-83859, 333-83861, 333-83863, 333-83867, 333-83869, 333-86585, and 333-91425) and on Forms S-8 (File Numbers 333-52845, 333-54550, 333-70321, and 333-81824) of our report dated February 21, 2003, except for Notes 15 and 25, as to which the date is May 22, 2003, relating to the financial statements, which appears in this Form 8-K.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
July 30, 2003

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 99.1

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

The following table sets forth our selected financial and operating data for Boston Properties, Inc., on an historical basis, which has been revised for the reclassification of losses from early extinguishments of debt, in accordance with SFAS 145 and the disposition of properties during 2003 which have been reclassified as discontinued operations, for the periods presented. Refer to Notes 15 and 25 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,				
	2002	2001	2000	1999	1998
	(in thousands, except per share data)				
Statement of Operations Information:					
Total revenue	$ 1,186,168	$ 987,012	$ 844,643	$ 741,305	$ 474,909
Expenses:					
Rental operating	368,239	313,998	264,376	235,058	138,510
Hotel operating	31,086	—	—	—	—
General and administrative	47,292	38,312	35,659	29,455	22,504
Interest	263,067	211,391	204,900	193,135	111,401
Depreciation and amortization	180,005	143,779	127,910	114,430	70,560
Net derivative losses	11,874	26,488	—	—	—
Loss from early extinguishment of debt	2,386	—	433	—	7,742
Loss on investments in securities	4,297	6,500	—	—	—
Income before income from unconsolidated joint ventures, net derivative losses and minority interests	277,922	246,544	211,365	169,227	124,192
Income from unconsolidated joint ventures	7,954	4,186	1,758	468	—
Minority interests	(72,036)	(68,811)	(72,586)	(66,054)	(37,524)
Income before gain (loss) on sale of real estate	213,840	181,919	140,537	103,641	86,668
Gain (loss) on sale of real estate, net of minority interest	186,810	6,505	(234)	6,467	—
Gain on sale of land held for development, net of minority interest	3,633	2,584	—	—	—
Income before discontinued operations	404,283	191,008	140,303	110,108	86,668
Discontinued operations, net of minority interest	40,100	23,791	12,695	9,668	6,444
Income before cumulative effect of a change in accounting principle	444,383	214,799	152,998	119,776	93,112
Cumulative effect of a change in accounting principle, net of minority interest	—	(6,767)	—	—	—
Net income before preferred dividend	444,383	208,032	152,998	119,776	93,112
Preferred dividend	(3,412)	(6,592)	(6,572)	(5,829)	—
Net income available to common shareholders	$ 440,971	$ 201,440	$ 146,426	$ 113,947	$ 93,112
Basic earnings per share:					
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 4.30	$ 2.05	$ 1.87	$ 1.57	$ 1.42
Discontinued operations, net of minority interest	0.43	0.26	0.18	0.15	0.11
Cumulative effect of a change in accounting principle, net of minority interest	—	(0.07)	—	—	—
Net income	$ 4.73	$ 2.24	$ 2.05	$ 1.72	$ 1.53
Weighted average number of common shares outstanding	93,145	90,002	71,424	66,235	60,776

Diluted earnings per share:					
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 4.24	$ 2.00	$ 1.84	$ 1.56	$ 1.41
Discontinued operations, net of minority interest	0.42	0.26	0.17	0.15	0.11
Cumulative effect of a change in accounting principle, net of minority interest	—	(0.07)	—	—	—
Net income	$ 4.66	$ 2.19	$ 2.01	$ 1.71	$ 1.52
Weighted average number of common and common equivalent shares outstanding	94,612	92,200	72,741	66,776	61,308

	December 31,				
	2002	2001	2000	1999	1998
	(in thousands, except per share data)				
Balance Sheet Information:					
Real estate, gross	$ 8,670,711	$ 7,457,906	$ 6,112,779	$ 5,609,424	$ 4,917,193
Real estate, net	7,847,778	6,738,052	5,526,060	5,138,833	4,559,809
Cash	55,275	98,067	280,957	12,035	12,166
Total assets	8,427,203	7,253,510	6,226,470	5,434,772	5,235,087
Total indebtedness	5,147,220	4,314,942	3,414,891	3,321,584	3,088,724
Minority interests	844,581	844,740	877,715	781,962	—
Convertible Redeemable Preferred Stock	—	100,000	100,000	100,000	—
Stockholders' and owners' equity(deficit)	2,159,590	1,754,073	1,647,727	1,057,564	948,481

	For the year ended December 31,				
	2002	2001	2000	1999	1998
	(in thousands, except per share data)				
Other Information:					
Funds from operations(1)	$ 495,610	$ 411,246	$ 247,371	$ 196,101	$ 153,045
Funds from operations, as adjusted(1)	516,004	337,823	247,371	196,101	153,045
Dividends per share	2.41	2.27	2.04	1.75	1.64
Cash flow provided by operating activities	437,380	419,403	329,474	303,469	215,287
Cash flow used in investing activities	(1,017,283)	(1,303,622)	(563,173)	(654,996)	(2,179,215)
Cash flow provided by financing activities	537,111	701,329	502,621	351,396	1,958,534
Total square feet at end of year	42,411	40,718	37,926	35,621	31,077
Occupancy rate at end of year	93.9%	95.3%	98.9%	98.4%	97.1%

(1) Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), we calculate Funds from Operations, or "FFO," by adjusting net income (loss) (computed in accordance with accounting principles generally accepted in the United States of America ("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 and joint ventures. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, 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 the comparative operating and financial performance of the Company 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. In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO after specific supplemental adjustments, including net derivative losses and early surrender lease adjustments. Although our FFO as adjusted clearly differs from NAREIT's definition of FFO, as well as that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not 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 and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

A reconciliation for Funds from Operations to net income 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".

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 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 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," expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "result" and similar 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 vary materially from those anticipated, estimated or projected. 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:

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments; failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets; costs of compliance with the Americans with Disabilities Act and other similar laws;
- potential liability for uninsured losses and environmental contamination;
- risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986, as amended, and possible adverse changes in tax and environmental laws; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. Other sections of this report may include additional factors which 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.

Critical Accounting Policies

The SEC published cautionary advice in December 2001 regarding MD&A disclosure of critical accounting policies. The significant accounting policies are also discussed in Note 1 of our financial statements. These critical accounting policies are subject to judgments and uncertainties, which affect the application of these policies. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The material accounting policies that we believe are most critical to the understanding of our financial position and results of operations that require significant management estimates and judgments are discussed below.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired assets (including land, buildings, tenant improvements, acquired above and below market leases and the origination cost of acquired in-place leases in accordance with SFAS No. 141) and acquired liabilities, and allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. Our properties are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If we incorrectly estimate the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different.

Real estate is stated at depreciated cost. The cost of buildings and improvements include the purchase price of property, legal fees and acquisition 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.

We periodically review our properties to determine if our carrying amounts will be recovered from future operating cash flows. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements which 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 FAS 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 or disposal date, an impairment loss may be recognized. If we determine that impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date.

A variety of costs are incurred in the acquisition, development and leasing of our properties. 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 is substantially complete and capitalization must cease involves a degree of judgement. Our capitalization policy on our development properties is guided by SFAS No. 34 "Capitalization of Interest Cost" and SFAS No. 67 "Accounting for Costs and the Initial Rental Operations of Real Estate Properties", and ceases capitalization when the property is held available for occupancy upon substantial completion of tenant improvements, but no later than one year from the completion of major construction activity. In the third quarter of 2002, we substantially completed construction of the base building at 611 Gateway in South San Francisco. Although substantial construction remained which would allow continued capitalization until the earlier of completion of tenant build-out or one-year, and since we have no leasing prospects and do not expect to lease the property within the next year, the building was placed in-service during the third quarter of 2002. Accordingly, since July 2002 all costs are being expensed as incurred.

Investments in Unconsolidated Joint Ventures

We account for our investments in unconsolidated joint ventures under the equity method of accounting as we exercise significant influence, but do not control these entities. 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 40 years. Under the equity method of accounting, the net equity investment is reflected on our consolidated balance sheets, and our share of net income or loss from the joint ventures is included on our consolidated statements of operations. The joint venture agreements may designate different percentage allocations among the investors for profits and losses, however our recognition of joint venture income or loss generally follows the joint ventures' distribution priorities, which may change upon the achievement of certain investment return thresholds.

We serve as the development manager for the joint ventures currently under development. The profit on development fees received from joint ventures is recognized to the extent attributable to the outside interests in the joint ventures, in addition to internal costs.

Revenue Recognition

Base rental revenue is reported on a straight-line basis over the terms of our respective leases. Accrued rental income represents rental income earned in excess of rent payments received pursuant to the terms of the individual lease agreements. We maintain 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. We also maintain 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 our estimates of collectibility differ from the cash received, the timing and amount of our reported revenue could be impacted. The average remaining term of our in-place tenant leases was approximately 7.2 years as of December 31, 2002. The credit risk is mitigated by the high quality of our tenant base, review of the tenant's risk profile prior to lease execution and continual 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 the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with EITF Issue 99-19 "Reporting Revenue Gross as a Principal versus Net as and Agent" ("Issue 99-19"). Issue 99-19

---

requires that these reimbursements be recorded gross, 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.

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.

Development fees are recognized ratably over the period of development, as earned. Management fees are recognized as revenue as they are earned.

Gains on sales of real estate are recognized pursuant to the provisions of SFAS No. 66 "Accounting for Sales of Real Estate." The specific timing of the sale is measured against various criteria in SFAS No. 66 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, installment or cost recovery methods, as appropriate until the sales criteria are met.

Depreciation

We compute depreciation on our properties using the straight line method based on an estimated useful life of 40 years. The portion of the acquisition cost allocated between land and building each property may vary based on estimated land value and other factors. The allocation of the acquisition cost to building and the determination of the useful life are based on management's estimates of the composite life of the building.

Fair Value of Financial Instruments

On a quarterly basis, we calculated the fair value of our mortgage debt and unsecured notes. We discount the spread between the future contractual interest payments and future interest payments on our mortgage debt and unsecured notes based on a current market rate. In determining the current market rate, we add a market spread to the quoted yields on federal government treasury securities with similar maturity dates to our own debt. In addition, we are also required to adjust the carrying values of our derivative contracts on a quarterly basis to its fair value. Because our valuations of our financial instruments are based on these types of estimates, the fair value of our financial instruments may change if our estimates do not turn out to be accurate.

Overview

Notwithstanding a decrease in tenant demand and higher reported vacancy rates, which have been impacted by stagnant job growth and the substantial supply of sub-lease space brought back to market due to overzealous expectations of economic growth which did not materialize, we produced a solid operating performance in 2002, increasing diluted earnings per share, excluding gains on sales of properties, by 13.8% on year-to year basis. Highlights of the 2002 operating performance include:

- completion of major new development projects at 5 Times Square Tower and 111 Huntington Avenue;
- acquisition of 399 Park Avenue in midtown Manhattan;
- opportunistic sale of premier assets in Washington, D.C.; and
- enhancement of capital structure thorough the placement of $750 million investment grade ten year 6.25% notes due 2013.

During 2002, we added 4.5 million net rentable square feet to our portfolio by completing an acquisition totaling approximately $1.06 billion and completing developments totaling approximately $924.0 million. In addition, as of December 31, 2002, we had construction in progress representing a total anticipated investment of approximately $924.0 million and a total of approximately 2.8 million net rentable square feet.

Also in 2002, we sold seven properties and other real estate totaling 1.5 million net rentable square feet. We received gross proceeds from the sale of this real estate of approximately $428.0 million. On the 2.7 million net rentable square feet of second generation space renewed or re-leased during the year, new net rents were on average approximately 6.8% higher than the expiring net rents. At December 31, 2002, our in-service portfolio was 93.9% occupied.

The difficulties and uncertainties characterizing the economy since 2001 still prevail and there is no sign yet of the job growth necessary for increasing office space demand. It is worth noting that, in this real estate cycle, previous over-commitments to space by tenants, particularly among technology companies, had an unprecedented role in subsequently rising vacancy rates while excessive speculative construction played a much lesser role, and that the market responded quickly to declining demand with a halt in almost all new construction. While this bodes well for the future, we do not foresee a significant improvement in the market in 2003. Decreased tenant activity makes it unlikely that occupancy rates will increase this year, and since there will be no shortage of opportunities for tenants, increases in market rents are unlikely, with further declines possible. As a consequence we expect little or no growth in 2003 in the income generated within our portfolio.

One of our focuses for 2003 is completing the leasing of three development projects recently put into service or still under construction. Two suburban projects with 555,000 net rentable square feet in total and base building construction completed, Waltham Weston Corporate Center in Waltham, Massachusetts, and 611 Gateway Center in south San Francisco, California, are impacted by low market demand and will not achieve stabilization for several years. The third project is Times Square Tower, a 47 story, 1.2 million net rentable square foot building currently under construction in New York City at the heart of Times Square. Arthur Andersen had originally been secured as lead tenant for this property, which is now being actively re-marketed after the termination of the Andersen lease in the wake of that firm's demise last year. A 207,000 square foot lease with a major law firm was signed in January 2003, and we are very encouraged by the considerable additional active tenant interest in this property, but with initial occupancy not scheduled until 2004, Times Square Tower will of course not contribute to 2003 earnings.

Our successful issuance of unsecured long- term debt, while beneficial overall in obtaining long-term fixed-rate investment grade debt, will negatively affect earnings for 2003 compared to last year. This fixed rate debt replaced floating rate construction financing in place during 2002 to fund development projects and part of the floating rate bridge financing that initially funded the acquisition of 399 Park Avenue. Thus our debt in 2003, by the nature of the yield curve, will be at measurably higher interest rates. This matching of long-term fixed rate financing to the long-term duration of our leases represents an appropriately prudent financial structure, but the impact will be some reduction in comparable net income.

Results of Operations

The following discussion is based on our Consolidated Financial Statements for the years ended December 31, 2002, 2001 and 2000.

As of July 1, 2002, we reported the gross operating revenues and expenses associated with our ownership of the hotels by our TRS on a consolidated basis, whereas in the past, we only reported net lease payments and real estate taxes. The reporting of the hotel operations for the year ended December 31, 2002 is not directly comparable to the same period in 2001 and therefore the hotel

operating expenses have been netted against hotel revenues for the year ended December 31, 2002 (otherwise entitled "Hotel Net Operating Income") to provide a basis of comparison to prior periods.

As of December 31, 2002 and 2001, we owned 142 properties and 147 properties, respectively (we refer to all of the properties that we own as our "Total Portfolio"). Our property operations, including property management, development and leasing are regionally aligned with the objective of becoming the dominant landlord in our core markets. Management reviews operating and financial data for each property separately and independently from all other properties. Major decisions regarding the allocation of financing, investing, information technology and capital allocation are made in conjunction with the input of senior management located in our corporate headquarters.

Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 extends the reporting requirements of discontinued operations to include components of an entity that have either been disposed of or are classified as held for sale. During the three months ended March 31, 2003, we disposed of three Class A office properties located in Baltimore, Maryland, Midtown Manhattan, New York and Washington, D.C. Due to our continuing involvement in the management of the Washington, D.C. property after the sale, we have not categorized this property as discontinued operations. In accordance with SFAS No. 144, the operating results of the properties sold in 2003 that qualify as discontinued operations have been reclassified as discontinued operations in the consolidated statements of operations for each of the three years in the period ended December 31, 2002.

As a result of changes in 2002 within our Total Portfolio, the financial data presented below shows significant changes in revenues and expenses from period to period. We do not believe our period to period financial data are comparable. Therefore, the comparison of operating results for the years ended December 31, 2002, 2001 and 2000 show changes resulting from properties that we owned for each period compared (we refer to this comparison as our "Same Property Portfolio" for the applicable period) and the changes attributable to our Total Portfolio.

Comparison of the year ended December 31, 2002 to the year ended December 31, 2001

The table below shows selected operating information for the Same Property Portfolio and the Total Portfolio. The Same Property Portfolio consists of 119 properties, including three hotels and five properties in which we have a joint venture interest, acquired or placed in service on or prior to January 1, 2001 and owned by us through March 31, 2003. The Total Property Portfolio includes the effect of the other properties either placed in service or acquired after January 1, 2001 or disposed of on or prior to March 31, 2003. Our net property operating margins, which are defined as rental

revenues less operating expenses exclusive of the three hotel properties for the year ended December 31, 2002, have ranged between 67% and 70%.

	Same Property Portfolio				Total Portfolio			
	2002	2001	Increase/ (Decrease)	% Change	2002	2001	Increase/ (Decrease)	% Change
	(dollars in thousands)							
Revenue:								
Rental	$ 820,193	$ 808,631	$ 11,562	1.43%	$ 1,118,287	$ 954,006	$ 164,281	17.22%
Termination income	6,820	7,231	(411)	(5.68)%	6,842	8,656	(1,814)	(20.96)%
Development and management services	—	—	—	—	10,748	12,167	(1,419)	(11.66)%
Interest and other	—	—	—	—	5,504	12,183	(6,679)	(54.82)%
Total revenue	827,013	815,862	11,151	1.37%	1,141,381	987,012	154,369	15.64%
Operating expenses	283,275	274,321	8,954	3.26%	377,822	340,766	37,056	10.87%
Net operating income	543,738	541,541	2,197	0.41%	763,559	646,246	117,313	18.15%
Hotel operating revenues less operating expenses	23,284	26,768	(3,484)	(13.02)%	23,284	26,768	(3,484)	(13.02)%
Expenses:								
General and administrative	—	—	—	—	47,292	38,312	8,980	23.44%
Interest	—	—	—	—	263,067	211,391	51,676	24.45%
Depreciation and amortization	129,273	126,074	3,199	2.54%	180,005	143,779	36,226	25.20%
Net derivative losses	—	—	—	—	11,874	26,488	(14,614)	(55.17)%
Loss from early extinguishment of debt	—	—	—	—	2,386	—	2,386	—
Losses on investments in securities	—	—	—	—	4,297	6,500	(2,203)	(33.89)%
Total expenses	129,273	126,074	3,199	2.54%	508,921	426,470	82,451	19.33%
Income before minority interests	$ 437,749	$ 442,235	$ (4,486)	(1.01)%	$ 277,922	$ 246,544	$ 31,378	12.73%
Income from unconsolidated joint ventures	$ 5,225	$ 4,014	$ 1,211	30.17%	$ 7,954	$ 4,186	$ 3,768	90.01%

Gains on sales of real estate, net	$ —	$ —	$ —	—	$ 186,810	$ 6,505	$ 180,305	2771.79%
Income from discontinued operations, net	$ 13,620	$ 20,962	$ (7,342)	(35.03)%	$ 14,755	$ 23,791	$ (9,036)	(37.98)%
Gains on sales of real estate from discontinued operations, net	$ —	$ —	$ —	—	$ 25,345	$ —	$ 25,345	—
Preferred dividend	$ —	$ —	$ —	—	$ (3,412)	$ (6,592)	$ (3,180)	(48.24)%

Rental Revenue

The increase in rental revenue of $164.3 million in the Total Portfolio, which includes an increase in straight line rent of approximately $17.8 million, primarily relates to new leases signed and in place at December 31, 2002 in connection with the acquisition of Citigroup Center in the second quarter of 2001 and the acquisition of 399 Park Avenue in the third quarter of 2002, the commencement of occupancy at 111 Huntington Avenue in the fourth quarter of 2001 and the placing into service of Five Times Square in the first quarter of 2002. These increased revenue by $194.5 million. This increase was offset by dispositions of properties throughout 2002 and 2003 and a decrease in occupancy rates from 95.3% at December 31, 2001 to 93.9% at December 31, 2002. Properties sold during 2002 and 2003 that were not included in discontinued operations consisted of One and Two Independence Square and 2300 N Street.

Termination Income

The termination income for the year ended December 31, 2002 was primarily related to three tenants in San Francisco who terminated their leases and made termination payments totaling approximately $4.0 million. This compared to termination income received in the prior year related primarily to six tenants throughout our portfolio who terminated their leases and made termination payments totaling approximately $6.6 million.

Development and Management Services

The decrease in development and management income of $1.4 million primarily resulted from the completion of projects during 2001, including certain third party contracts as well as certain of our joint venture projects. This decrease was offset by development fees earned on a new joint venture project which was started in 2002 as well as an increase in management fees relating to certain of our joint ventures which were placed into service in 2002.

Interest and Other

The decrease in interest and other expenses related to the Total Portfolio is a result of less interest earned due to lower average cash balances maintained and lower interest rates on cash balances during the year ended December 31, 2002 as compared to the year ended December 31, 2001. During the year ended December 31, 2001, the higher average cash balance was attributable to unused proceeds from our public offering of common stock in October 2000.

Operating Expenses

Property operating expenses (real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses) in the Same Property Portfolio increased during the year ended December 31, 2002 primarily due to increases in real estate taxes of $4.2 million, or 4.3%, and increases in insurance of $4.0 million, or 70.4%. The increase in real estate taxes was primarily due to higher property tax assessments. Small increases in the other property operating expenses account for the remaining difference. Additional increases in property operating expenses in the Total Property Portfolio were primarily due to the additions of the Citigroup Center, Five Times Square, 399 Park Avenue and 111 Huntington Avenue properties and other properties that we acquired or placed in service after January 1, 2001. Increases in insurance in the Same Property Portfolio and Total Portfolio are related to increases in rates on existing coverage and the purchase of a separate stand-alone terrorism policy. The office leases include reimbursements from tenants for a portion of these operating expenses. The increases were offset by decreases related to properties that were sold during 2002 and 2003.

Hotel Net Operating Income

Net operating income for the hotel properties decreased by $3.5 million or approximately 13.0% for the year ended December 31, 2002 compared to the year ended December 31, 2001. Average occupancy and Revenue per Available Room ("REVPAR") for the hotel properties were 80.7% and $146.25, respectively for the year ended December 31, 2002 compared to 80.5% and $158.50, respectively for the prior year. This is related to the general downturn in the economy as well as lasting effects of September 11, 2001.

Other Expenses

General and administrative expenses in the Total Portfolio increased during the year ended December 31, 2002 by $9.0 million, of which $2.8 million related to the write-off in the second quarter of non-recoverable commissions related to the termination of the lease with Arthur Andersen LLP for 620,947 square feet at the Times Square Tower development project. The remaining increase related primarily to increases in compensation and related expenses, specifically an increase of $3.3 million to bonuses awarded to senior management for the year ended December 31, 2002 as compared to the year ended December 31, 2001, a $1.4 million increase related to a decrease in capitalized wages resulting from decreased development activity in 2002 compared to the year ended December 31, 2001, and a $0.5 million increase in costs incurred related to implementing the requirements of the Sarbanes-Oxley Act of 2002.

In 2003, we transitioned to using solely restricted stock units, as opposed to stock options and restricted stock, awarded under the 1997 Stock Incentive Plan, as amended and restated on January 24, 2000, as our primary vehicle for employee equity compensation. Employees vest in restricted stock unit awards over a five year term. Restricted stock and restricted stock units are measured at fair value on the date of grant based on the number of shares granted and the price of our 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. To the extent restricted stock or restricted stock 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 restricted stock units was $1.2 million during the year ended December 31, 2002. Stock-based compensation associated with approximately $6.1 million of restricted stock units which were granted in January 2003 will be incurred as such restricted stock units vest in years 2006 through 2008.

Interest expense for the Total Portfolio increased as a result of having a higher average outstanding debt balance as compared to the prior period as well as decreased interest capitalization. This was primarily due to placing into service and cessation of interest capitalization on Five Times Square, 111 Huntington Avenue, and 611 Gateway and new debt incurred related to the acquisition of Citigroup Center and 399 Park Avenue. Our total debt outstanding at December 31, 2002 was approximately $5.1 billion, compared to $4.3 billion at December 31, 2001. This was partially offset by a decrease in our weighted average interest rates over the year from 6.57% at December 31, 2001 to 6.03% at December 31, 2002.

Costs directly related to the development of rental properties are capitalized. 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, 2002 and 2001 were $5.1 million and $6.6 million, respectively. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the year ended December 31, 2002 and 2001 was $22.5 million and $59.3 million, respectively. These costs are not included in the interest expense referenced above.

Depreciation and amortization expense for the Total Portfolio increased as a result of the additions of the Citigroup Center, Five Times Square, 111 Huntington Avenue and 399 Park Avenue properties and other properties that we acquired or placed in service after January 1, 2001. The increases were

offset by decreases related to properties that were sold during 2002 and 2003 that were not included in discontinued operations.

Net derivative losses for the Total Portfolio represent the mark to market of our derivative contracts and payments that were not effective for accounting purposes. During the year ended December 31, 2002, we recognized a reduction in the fair value of our contracts as a result of generally low interest rates. The fair value of our derivative contracts is included on our balance sheet at December 31, 2002.

The loss from early extinguishment of debt for the year ended December 31, 2002 related to a debt extinguishment charge we incurred in connection with the prepayment of debt in connection with the sale of a property.

During the year ended December 31, 2002, we recognized losses on our investments in securities of approximately $4.3 million. This loss was related to the write off of our investment in the securities of a technology company due to the Company's determination that the decline in the fair value of these securities was an other than temporary decline. The loss on investment of $6.5 million for the year ended December 31, 2001 was related to the write off of investments in securities of two technology companies.

Joint Ventures

Income from unconsolidated joint ventures for the Same Property Portfolio increased by $1.2 million for the year ended December 31, 2002. The primary result of the increase is related to the completion of the repositioning of 265 Franklin Street during 2001 as well as receiving preferential returns on certain other joint ventures resulting from the achievement of specified investment return thresholds. The additional increase in the total portfolio is related to the placing in service of One and Two Discovery Square.

Other

Gains on sales of real estate for the year ended December 31, 2002 related to the sale of One and Two Independence Square were not included in discontinued operations, as we have continuing involvement through a third party management agreement.

Income from discontinued operations for the year ended December 31, 2002 in the Same Property Portfolio related to the discontinued operations of 875 Third Avenue and the Candler Building. During 2001, termination income of approximately $13.0 million recognized at 875 Third Avenue. The decrease in the Total Portfolio was a result of the properties classified as discontinued operations in accordance with SFAS No. 144 being sold prior to December 31, 2002, and therefore, we did not recognize a full year of revenue and expenses as we did in the prior year.

Gains on sales of real estate from discontinued operations for the year ended December 31, 2002 related to the gain recognized on the properties that were sold. These properties included Fullerton Square, 2391 West Winton and 7600, 7700 and 7702 Boston Boulevard.

The decrease in our preferred dividend from $6.6 million for the year ended December 31, 2001 to $3.4 million for the year ended December 31, 2002 was a result of the conversion of 2,000,000 shares of our preferred stock into common stock in July 2002.

Comparison of the year ended December 31, 2001 to the year ended December 31, 2000

The table below shows selected operating information for the Same Property Portfolio and the Total Portfolio. The Same Property Portfolio consists of 115 properties, including three hotels and one property which we own a joint venture interest, acquired or placed in service on or prior to January 1, 2001 and owned by us through March 31, 2003. The Total Property Portfolio includes the effect of the other properties either placed in service or acquired after January 1, 2001 or disposed of on or prior to

March 31, 2003. Our net property operating margins, which are defined as rental revenues less operating expenses exclusive of the three hotel properties for the year ended December 31, 2002, have ranged between 67% and 70%.

	Same Property Portfolio				Total Portfolio			
	2001	2000	Increase/ (Decrease)	% Change	2001	2000	Increase/ (Decrease)	% Change
	(dollars in thousands)							
Revenue:								
Rental	$ 826,222	$ 788,980	$ 37,242	4.72%	$ 954,006	$ 820,596	$ 133,410	16.26%
Termination income	6,736	3,652	3,084	84.45%	8,656	3,652	5,004	137.02%
Development and management services	—	—	—	—	12,167	11,837	330	2.79%
Interest and other	—	—	—	—	12,183	8,558	3,625	42.36%
Total revenue	832,958	792,632	40,326	5.09%	987,012	844,643	142,369	16.86%
Operating expenses	282,969	256,128	26,841	10.48%	340,766	293,591	47,175	16.07%
Net operating income	549,989	536,504	13,485	2.51%	646,246	551,052	95,194	17.27%
Hotel operating revenues less operating expenses	26,768	29,215	(2,447)	(8.38)%	26,768	29,215	(2,447)	(8.38)%
Expenses:								
General and administrative	—	—	—	—	38,312	35,659	2,653	7.44%
Interest	—	—	—	—	211,391	204,900	6,491	3.17%
Depreciation and amortization	125,596	123,366	2,230	1.81%	143,779	127,910	15,869	12.41%
Net derivative losses	—	—	—	—	26,488	—	26,488	—
Loss from early extinguishment of debt	—	—	—	—	—	433	(433)	—
Loss on investments in securities	—	—	—	—	6,500	—	6,500	—
Total expenses	125,596	123,366	2,230	1.81%	426,470	368,902	57,568	15.61%
Income before minority interests	$ 451,161	$ 442,353	$ 8,808	1.99%	$ 246,544	$ 211,365	$ 35,179	16.64%
Income from unconsolidated joint ventures	$ 441	$ 573	$ (132)	(23.04)%	$ 4,186	$ 1,758	$ 2,428	138.11%
Income from discontinued operations, net of minority interest	$ 23,791	$ 12,695	$ 11,096	87.40%	$ 23,791	$ 12,695	$ 11,096	87.40%

Revenue

The increase in rental revenue in our Same Property Portfolio is primarily a result of an overall increase in rental rates on new leases and rollovers, an increase in reimbursable operating expenses as well as an increase in termination fees and early surrender income offset by a decrease in occupancy

from year to year. Rental revenue is comprised of base rent, including termination fees, recoveries from tenants and parking and other. As discussed under the heading "Critical Accounting Policies—Revenue Recognition," base rental revenue is recognized on a straight-line basis over the terms of the respective leases. Accrued rental income represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements. Straight line rent for the year ended December 31, 2001 was $22.5 million compared to $12.2 million for the year ended December 31, 2000. Termination fees and early surrender income increased from $3.7 million for the year ended December 31, 2000 to $8.7 million for the year ended December 31, 2001. The occupancy for our Same Property Portfolio decreased from 98.9% as of December 31, 2000 to 95.8% as of December 31, 2001. Additional increases in rental revenues in our total portfolio are primarily the result of rental revenues earned on properties we acquired or placed in service after January 1, 2000 offset by a decrease in overall occupancy from 98.9% to 95.3%.

The increase in development and management services income in our total portfolio is mainly due to income earned on contracts starting in 2001 and 2000 and an increase of approximately $0.4 million of work order profits earned on the entire portfolio. This was offset by certain management and development contracts ending in 2000 and some reductions in charges for management fees.

The increase in interest and other income in our total portfolio is primarily due to more interest earned as a result of higher average cash balances in 2001 resulting from the remaining proceeds from the public offering in October 2000 offset by lower interest rates.

Operating Expenses

Property operating expenses (real estate taxes, utilities, repairs and maintenance, cleaning and other property-related expenses) in our Same Property Portfolio increased mainly due to increases in real estate taxes of $5.5 million, or 5.6%, and increases in utilities of $7.5 million, or 24.0%. Most office leases include reimbursement for these operating expenses. The increase in real estate taxes was primarily due to higher property tax assessments. Small increases in the other property operating expenses account for the remaining difference. Additional increases in property operating expenses in our total portfolio were due to properties we acquired or placed in service after January 1, 2000.

Hotel Net Operating Income

Net operating income for the hotel properties decreased $2.4 million, or approximately 8.4%, for the year ended December 31, 2001 as compared to December 31, 2000. Average occupancy and Revenue per Available Room ("REVPAR") for the hotel properties were 80.5% and $158.5, respectively, for the year ended December 31, 2001 compared to 88.4% and $195.59, respectively, for the prior year. This was a result of a general downturn in the market as well as the events of September 11, 2001.

Other Expenses

General and administrative expenses in our Total Portfolio increased mainly due to an overall increase in payroll due to an increase in the overall size of our Total Portfolio and the number of employees since January 1, 2000 as well as salary increases to employees. We wrote off $1.4 million of abandoned projects in 2001 compared to a $0.7 million write-off in 2000. In addition, the 2001 expense does not include $3.0 million that was included in the prior year related to the departure of two senior employees.

Interest expense for our Total Portfolio increased as a result of having a higher average outstanding debt balance as compared to the prior period. Our debt outstanding at December 31, 2001 was approximately $4.3 billion, compared to $3.4 billion at December 31, 2000. This was partially offset by a decrease in our weighted average interest rates over the year from 7.37% at December 31, 2000 to 6.57% at December 31, 2001.

Costs directly related to the development of rental properties are capitalized. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development. Capitalized wages for the years ended December 31, 2001 and 2000 were $6.5 million and $5.1 million, respectively. These costs are not included in the general and administrative expenses discussed above. Interest capitalized for the years ended December 31, 2001 and 2000 was $59.3 million and $37.7 million, respectively. These costs are not included in the interest expense discussed above.

Depreciation and amortization expense for our Same Property Portfolio increased as a result of capital and tenant improvements made during 2001. Additional increases in depreciation and amortization expense for our total portfolio were mainly due to the properties we acquired or placed in service after January 1, 2000 and related capital and tenant improvements.

The net derivative losses incurred during 2001 result from the adoption of Financial Accounting Standard No. 133 ("FAS 133") "Accounting for Derivative Instruments and Hedging Activities" as well as the mark to market of the derivatives subsequent to adoption.

The loss on investments in securities during 2001 resulted from the write down of investments in the securities of two publicly traded telecommunications companies. The Company determined that the decline in the fair value of these securities was other than temporary.

Joint Ventures

Unconsolidated joint venture income increased as a result of income earned on joint venture properties being placed in service during 2001 and income earned on joint venture properties acquired after January 1, 2000.

Income from Discontinued Operations

Discontinued operations in the Same Property Portfolio and the Total Portfolio relates to operations of the properties we disposed of in 2002 and 2003 that were considered discontinued operations under SFAS No. 144. The increase from 2000 to 2001 is related to $13.0 million of termination income recognized related to a tenant at 875 Third Avenue who terminated their lease in 2001.

Funds from Operations

Pursuant to the revised definition of Funds from Operations adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), we calculate Funds from Operations, or "FFO," by adjusting net income (loss) (computed in accordance with accounting principles generally accepted in the United States of America ("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 and joint ventures. The use of FFO, combined with the required primary GAAP presentations, has been fundamentally beneficial, 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 the comparative operating and financial performance of the Company 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. In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO after specific supplemental adjustments, including net derivative losses and early surrender lease adjustments. Although our FFO as adjusted clearly differs from NAREIT's definition of FFO, as well as that of other REITs and real estate companies, we believe it provides a meaningful supplemental measure of our operating performance. FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not 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 and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

Our funds from operations for the respective periods is calculated as follows:

	Year ended December 31,				
	2002	2001	2000	1999	1998
			(in thousands)		
Income before minority interests and unconsolidated joint venture income	$ 277,922	$ 246,544	$ 211,365	$ 169,227	$ 124,192
Add:					
Loss from early extinguishment of debt(1)	2,386	—	433	—	7,742
Income before minority interests and unconsolidated joint venture income, as adjusted	280,308	246,544	211,798	169,227	131,934
Add:					
Real estate depreciation and amortization	192,574	153,550	134,386	119,583	74,649
Income from unconsolidated joint ventures	7,954	4,186	1,758	468	—
Income from discontinued operations	17,997	29,288	16,981	13,145	8,641
Less:					
Minority property partnership's share of funds from operations	(3,223)	(2,322)	(1,061)	(3,681)	(4,185)
Preferred dividends and distributions	(28,711)	(33,312)	(32,994)	(32,111)	(5,830)
Funds from operations	466,899	397,934	330,868	266,631	205,209
Add(subtract):					
Net derivative losses (SFAS No. 133)	11,874	26,488	—	—	—
Early surrender lease adjustment	8,520	(8,518)	—	—	—
Funds from operations before net derivative losses and after early surrender lease adjustment	$ 487,293	$ 415,904	$ 330,868	$ 266,631	$ 205,209
Funds from operations available to common shareholders before net derivative losses and after early surrender lease adjustment	$ 399,489	$ 337,823	$ 247,371	$ 196,101	$ 153,045
Weighted average shares outstanding—basic	93,145	90,002	71,424	66,235	60,776

(1) In accordance with SFAS 145, which was adopted on January 1, 2003 and reflected retroactively for all periods presented, we no longer classify losses from the extinguishment of debt as an extraordinary item and therefore, under the NAREIT definition of FFO, we no longer add them to net income in calculating FFO. However, our reported FFO for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 pre-dated the adoption of SFAS 145 and was calculated pursuant to the NAREIT definition based on accounting policies then in effect. Accordingly, we are presenting the reconciliation of FFO for such periods to income before minority interest and unconsolidated joint venture income to include an adjustment for losses from the early extinguishment of debt for each period presented.

Reconciliation to Diluted Funds from Operations:

	For the years ended December 31,									
	2002		2001		2000		1999		1998	
	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)
					(in thousands)					
Basic Funds from Operations before net derivative losses and after early surrender lease adjustment	$ 487,293	113,617	$ 415,904	110,803	$ 330,868	95,532	$ 266,631	90,058	$ 205,209	81,487
Effect of Dilutive Securities										
Convertible Preferred Units	25,114	9,821	26,720	11,012	26,422	10,393	26,428	10,360	2,819	1,135
Convertible Preferred Stock	3,412	1,366	6,592	2,625	6,572	2,625	5,834	2,337	—	—
Stock Options and other	185	1,468	—	1,547	—	1,280	—	541	—	532
Diluted Funds from Operations before	$ 516,004	126,272	$ 449,216	125,987	$ 363,862	109,830	$ 298,893	103,296	$ 208,028	83,154

net derivative losses and after early surrender lease adjustment										
Diluted Funds from Operations available to common shareholders before net derivative losses and after early surrender lease adjustment(1)	$ 432,345	105,799	$ 375,046	105,185	$ 283,994	85,723	$ 229,961	79,473	$ 156,215	62,443

(1) Our share of diluted funds from operations was 83.79%, 83.49%, 78.05%, 76.94% and 75.09% for the years ended December 31, 2002, 2001, 2000, 1999 and 1998, respectively.

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

See "Index to Financial Statements" on page 20.

Item 15. ***Exhibits, Financial Statement Schedule and Reports on Form 8-K***

(a) Financial Statements

See "Index to Financial Statements" on page 20.

BOSTON PROPERTIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders 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. (the "Company") at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 21 to the consolidated financial statements, the Company, on January 1, 2001, adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended and interpreted. Also, as discussed in Notes 22 and 15 to the consolidated financial statements, on January 1, 2002 and January 1, 2003, respectively, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and Statement of Financial Accounting Standards No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections," respectively.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts
February 21, 2003, except for
Notes 15 and 25 as to which the
date is May 22, 2003

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2002	December 31, 2001
	(in thousands, except for share and par value amounts)	
ASSETS		
Real estate:	$ 8,670,711	$ 7,457,906
Less: accumulated depreciation	(822,933)	(719,854)
Total real estate	7,847,778	6,738,052
Cash and cash equivalents	55,275	98,067
Cash held in escrows	41,906	23,000
Investments in securities	—	4,297
Tenant and other receivables (net of allowance for doubtful accounts of $3,682 and $2,394, respectively)	20,458	43,546
Accrued rental income (net of allowance of $5,000 and $3,300, respectively)	165,321	119,494
Deferred charges, net	176,545	107,573
Prepaid expenses and other assets	18,015	20,996
Investments in unconsolidated joint ventures	101,905	98,485
Total assets	$ 8,427,203	$ 7,253,510
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage notes payable	$ 4,267,119	$ 4,314,942
Unsecured senior notes (net of discount of $2,625)	747,375	—
Unsecured bridge loan	105,683	—
Unsecured line of credit	27,043	—
Accounts payable and accrued expenses	73,846	81,108
Dividends and distributions payable	81,226	79,561
Interest rate contracts	14,514	11,147
Accrued interest payable	25,141	9,080
Other liabilities	81,085	58,859
Total liabilities	5,423,032	4,554,697
Commitments and contingencies	—	—
Minority interests	844,581	844,740
Series A Convertible Redeemable Preferred Stock, liquidation preference $50.00 per share, 0 and 2,000,000 shares issued and outstanding in 2002 and 2001, respectively	—	100,000
Stockholders' equity:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 250,000,000 shares authorized, 95,441,890 and 90,859,491 issued and 95,362,990 and 90,780,591 outstanding in 2002 and 2001, respectively	954	908
Additional paid-in capital	1,982,689	1,789,521
Earnings in excess of dividends (dividends in excess of earnings)	198,586	(17,669)
Treasury common stock, at cost	(2,722)	(2,722)
Unearned compensation	(2,899)	(2,097)
Accumulated other comprehensive loss	(17,018)	(13,868)
Total stockholders' equity	2,159,590	1,754,073

Total liabilities and stockholders' equity	$ 8,427,203	$ 7,253,510

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

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,		
	2002	2001	2000
	(In thousands, except for per share amounts)		
Revenue			
Rental:			
Base rent	$ 932,714	$ 789,627	$ 672,924
Recoveries from tenants	141,589	121,036	100,432
Parking and other	50,827	51,999	50,892
Total rental revenue	1,125,130	962,662	824,248
Hotel revenue	44,786	—	—
Development and management services	10,748	12,167	11,837
Interest and other	5,504	12,183	8,558
Total revenue	1,186,168	987,012	844,643
Expenses			
Operating			
Rental	368,239	313,998	264,376
Hotel	31,086	—	—
General and administrative	47,292	38,312	35,659
Interest	263,067	211,391	204,900
Depreciation and amortization	180,005	143,779	127,910
Net derivative losses	11,874	26,488	—
Loss from early extinguishment of debt	2,386	—	433
Losses on investments in securities	4,297	6,500	—
Total expenses	908,246	740,468	633,278
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains (losses) on sales of real estate and land held for development, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	277,922	246,544	211,365
Minority interests in property partnerships	2,065	1,085	(932)
Income from unconsolidated joint ventures	7,954	4,186	1,758
Income before minority interest in Operating Partnership, gains (losses) on sales of real estate and land held for development, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	287,941	251,815	212,191
Minority interest in Operating Partnership	(74,101)	(69,896)	(71,654)
Income before gains (losses) on sales of real estate and land held for development, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	213,840	181,919	140,537
Gains (losses) on sales of real estate, net of minority interest	186,810	6,505	(234)
Gains on sales of land held for development, net of minority interest	3,633	2,584	—
Income before discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	404,283	191,008	140,303
Discontinued operations:			
Income from discontinued operations, net of minority interest	14,755	23,791	12,695
Gains on sales of real estate from discontinued operations, net of minority interest	25,345	—	—
Income before cumulative effect of a change in accounting principle and preferred dividend	444,383	214,799	152,998
Cumulative effect of a change in accounting principle, net of minority interest	—	(6,767)	—
Net income before preferred dividend	444,383	208,032	152,998
Preferred dividend	(3,412)	(6,592)	(6,572)
Net income available to common shareholders	$ 440,971	$ 201,440	$ 146,426
Basic earnings per common share:			
Income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ 4.30	$ 2.05	$ 1.87
Discontinued operations, net of minority interest	0.43	0.26	0.18
Cumulative effect of a change in accounting principle, net of minority interest	—	(0.07)	—

Net income available to common shareholders	$ 4.73	$ 2.24	$ 2.05
Weighted average number of common shares outstanding	93,145	90,002	71,424
Diluted earnings per common share:			
Income available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$ 4.24	$ 2.00	$ 1.84
Discontinued operations, net of minority interest	0.42	0.26	0.17
Cumulative effect of a change in accounting principle, net of minority interest	—	(0.07)	—
Net income available to common shareholders	$ 4.66	$ 2.19	$ 2.01
Weighted average number of common and common equivalent shares outstanding	94,612	92,200	72,741

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

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Earnings in excess of Dividends	Treasury Stock, at cost	Unearned Compensation	Accumulated Other Comprehensive Loss	Total
Stockholders' Equity, December 31, 1999	67,910	$ 679	$ 1,067,778	$ (10,893)	$ —	$ —	$ —	$ 1,057,564
Sale of Common Stock net of offering costs	17,110	171	633,591	—	—	—	—	633,762
Unregistered Common Stock issued	439	4	18,156	—	—	—	—	18,160
Conversion of operating partnership units to Common Stock	614	6	20,239	—	—	—	—	20,245
Allocation of minority interest	—	—	(85,809)	—	—	—	—	(85,809)
Net income for the year	—	—	—	146,426	—	—	—	146,426
Dividends declared	—	—	—	(149,428)	—	—	—	(149,428)
Shares issued pursuant to stock purchase plan	11	—	374	—	—	—	—	374
Stock options exercised	511	5	17,961	—	—	—	—	17,966
Issuance of restricted stock	35	1	1,059	—	—	(1,060)	—	—
Amortization of restricted stock award	—	—	—	—	—	212	—	212
Unrealized holding losses	—	—	—	—	—	—	(11,745)	(11,745)
Stockholders' Equity, December 31, 2000	86,630	866	1,673,349	(13,895)	—	(848)	(11,745)	1,647,727
Conversion of operating partnership units to Common Stock	3,765	38	149,588	—	—	—	—	149,626
Allocation of minority interest	—	—	(47,852)	—	—	—	—	(47,852)
Net income for the year	—	—	—	201,440	—	—	—	201,440
Dividends declared	—	—	—	(205,214)	—	—	—	(205,214)
Shares issued pursuant to stock purchase plan	8	—	213	—	—	—	—	213
Stock options exercised	412	4	12,396	—	—	—	—	12,400
Treasury stock, at cost	(79)	—	—	—	(2,722)	—	—	(2,722)
Issuance of restricted stock	45	—	1,827	—	—	(1,827)	—	—
Amortization of restricted stock award	—	—	—	—	—	578	—	578
Unrealized holding losses	—	—	—	—	—	—	(2,123)	(2,123)
Stockholders' Equity, December 31, 2001	90,781	908	1,789,521	(17,669)	(2,722)	(2,097)	(13,868)	1,754,073
Conversion of operating partnership units to Common Stock	1,566	16	59,962	—	—	—	—	59,978
Conversion of preferred stock to Common Stock	2,625	26	99,974	—	—	—	—	100,000
Allocation of minority interest	—	—	21,062	—	—	—	—	21,062
Net income for the year	—	—	—	440,971	—	—	—	440,971
Dividends declared	—	—	—	(224,716)	—	—	—	(224,716)
Shares issued pursuant to stock purchase plan	8	—	284	—	—	—	—	284
Stock options exercised	330	3	9,898	—	—	—	—	9,901
Issuance of restricted stock	53	1	1,988	—	—	(1,989)	—	—
Amortization of restricted stock award	—	—	—	—	—	1,187	—	1,187
Change in unrealized losses on derivative instruments used in cash flow hedging arrangements	—	—	—	—	—	—	(3,511)	(3,511)
Amortization of interest rate contracts	—	—	—	—	—	—	361	361
Stockholders' Equity, December 31, 2002	95,363	$ 954	$ 1,982,689	$ 198,586	$ (2,722)	$ (2,899)	$ (17,018)	$ 2,159,590

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

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31,		
	2002	2001	2000
		(in thousands)	
Net income before preferred dividend	$ 444,383	$ 208,032	$ 152,998
Other comprehensive loss:			
Amortization of interest rate contracts	361	—	—
Realized loss on investments in securities included in net income before preferred dividend	—	6,500	—
Unrealized gains (losses) on investments in securities:			
Unrealized holding losses arising during the period	—	(1,608)	(11,745)
Less: reclassification adjustment for the cumulative effect of a change in accounting principle included in net income before preferred dividend	—	6,853	—
Unrealized derivative losses:			
Transition adjustment of interest rate contracts	—	(11,414)	—
Change in unrealized losses on derivative instruments used in cash flow hedging arrangements	(3,511)	(2,454)	—
Other comprehensive loss	(3,150)	(2,123)	(11,745)
Comprehensive income	$ 441,233	$ 205,909	$ 141,253

The accompanying notes are an integral part of these financial statements

BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
	2002	2001	2000
		(in thousands)	
Cash flows from operating activities:			
Net income before preferred dividend	$ 444,383	$ 208,032	$ 152,998
Adjustments to reconcile net income before preferred dividend to net cash provided by operating activities:			
Depreciation and amortization	186,429	150,163	133,150
Non-cash portion of interest expense	5,558	3,937	3,693
Non-cash compensation expense	1,187	578	2,170
Loss on investments in securities	4,297	6,500	—
Non-cash portion of derivative losses	4,478	(5,014)	—
Payments on deferred interest rate contracts	(3,511)	—	—
Minority interests in property partnerships	(2,065)	(1,085)	932
Earnings in excess of distributions from unconsolidated joint ventures	738	(1,451)	90
Minority interest in Operating Partnership	124,775	75,878	75,860
Losses (gains) on sales of properties	(263,220)	(11,239)	314
Non-cash portion of losses from early extinguishment of debt	554	—	433
Cumulative effect of a change in accounting principle	—	8,432	—
Change in assets and liabilities:			
Cash held in escrows	1,094	4,951	12,303
Tenant and other receivables, net	23,027	(16,694)	1,407
Accrued rental income, net	(50,466)	(27,961)	(14,509)
Prepaid expenses and other assets	1,108	10,154	(2,792)
Accounts payable and accrued expenses	3,216	29,265	(14,300)
Accrued interest payable	16,061	3,481	(2,887)
Other liabilities	1,848	8,580	1,644
Tenant leasing costs	(62,111)	(27,104)	(21,032)
Total adjustments	(7,003)	211,371	176,476

Net cash provided by operating activities	437,380	419,403	329,474
Cash flows from investing activities:			
Acquisitions/additions to real estate	(1,432,302)	(1,322,565)	(615,006)
Investments in unconsolidated joint ventures	(4,158)	(7,163)	(16,582)
Net proceeds from sales of real estate	419,177	26,106	70,712
Investments in securities	—	—	(2,297)
Net cash used in investing activities	(1,017,283)	(1,303,622)	(563,173)

	For the year ended December 31,		
	2002	2001	2000
	(in thousands)		
Cash flows from financing activities:			
Net proceeds from the issuance of common stock	—	—	633,762
Borrowings on unsecured line of credit	200,098	111,200	184,000
Repayments of unsecured line of credit	(173,055)	(111,200)	(550,000)
Repayments of mortgage notes	(417,230)	(229,021)	(525,241)
Proceeds from mortgage notes	369,155	1,128,534	976,390
Proceeds from unsecured senior notes	747,375	—	—
Proceeds from unsecured bridge loan	1,000,000	—	—
Repayments of unsecured bridge loan	(894,317)	—	—
Mortgage payable proceeds released from escrow	—	57,610	—
Dividends and distributions	(297,331)	(276,538)	(209,723)
Proceeds from stock transactions	9,774	12,665	16,382
Purchase of treasury common stock	—	(2,722)	—
Net (distributions) contributions to/from minority interest holder	(1,539)	37,539	—
Deferred financing costs	(5,819)	(26,738)	(22,949)
Net cash provided by financing activities	537,111	701,329	502,621
Net increase (decrease) in cash and cash equivalents	(42,792)	(182,890)	268,922
Cash and cash equivalents, beginning of period	98,067	280,957	12,035
Cash and cash equivalents, end of period	$ 55,275	$ 98,067	$ 280,957
Supplemental disclosures:			
Cash paid for interest	$ 272,576	$ 275,263	$ 253,971
Interest capitalized	$ 22,510	$ 59,292	$ 37,713
Non-cash investing and financing activities:			
Additions to real estate included in accounts payable	$ 10,067	$ 5,547	$ 4,858
Mortgage notes payable assumed in connection with the acquisition of real estate	$ —	$ —	$ 117,831
Mortgage notes payable assigned in connection with the sale of real estate	$ —	$ —	$ 166,547
Mortgage payable proceeds escrowed	$ —	$ —	$ 57,610
Issuance of minority interest in connection with the acquisition of real estate	$ —	$ —	$ 44,712
Dividends and distributions declared but not paid	$ 81,226	$ 79,561	$ 71,274
Common stock issued in connection with an acquisition of real estate	$ —	$ —	$ 2,660
Common stock issued in connection with an acquisition of minority interest	$ —	$ —	$ 15,500
Conversions of minority interest to Stockholders' Equity	$ 30,247	$ 119,604	$ 20,245
Conversions of Preferred Stock to Stockholders' Equity	$ 100,000	$ —	$ —

Basis adjustment in connection with conversions of minority interest to Stockholders' Equity	$ 29,731	$ 33,927	$ —
Deposit received on real estate held for sale escrowed	$ 20,000	$ —	$ —
Real estate contributed to joint ventures	$ —	$ —	$ 36,999
Issuance of restricted shares to employees	$ 1,989	$ 1,827	$ 1,060
Unrealized loss related to investments in securities	$ —	$ 1,608	$ 11,745

The accompanying notes are an integral part of these financial statements

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"). Boston Properties, Inc. is the sole general partner of Boston Properties Limited Partnership (the "Operating Partnership") and at December 31, 2002, owned an approximate 76.3% (75.0% at December 31, 2001) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as "common units of partnership interest" (also referred to as "OP Units") or "preferred units of partnership interest" (also referred to as "Preferred Units"). All references to OP Units and Preferred Units exclude such units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the issuance of OP Units to particular holders that may restrict such right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership must redeem such OP Unit for cash equal to the then value of a share of common stock of the Company ("Common Stock"), except that the Company may, at its election, in lieu of a cash redemption, acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. Each series of Preferred Units bears a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Preferred Units may also be convertible into OP Units at the election of the holder thereof or the Company, subject to the terms of such Preferred Units.

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

Properties

At December 31, 2002, the Company owned or had interests in a portfolio of 142 commercial real estate properties (147 properties at December 31, 2001) (the "Properties") aggregating more than 42.4 million net rentable square feet (including six properties under construction totaling approximately 2.8 million net rentable square feet). The Properties consist of 133 office properties, including 105 Class A office properties and 28 Office/Technical properties; four industrial properties; three hotels; two retail properties; and structured parking for 20,710 vehicles containing approximately 6.7 million square feet. In addition, the Company owns, controls or has interests in 41 parcels of land totaling 539.6 acres (which will support approximately 8.8 million net rentable square feet of development). 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 and other technical uses.

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 where the Company has financial and operating control are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in real estate joint ventures and companies, over which the Company has the ability to exercise significant influence, but does not have financial or operating control, are accounted for 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

Real Estate

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings, tenant improvements, acquired above and below market leases and the origination cost of acquired in-place leases in accordance with SFAS No. 141) and acquired liabilities, and allocates purchase price based on these assessments. The Company assesses fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property. The Company's properties are reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. If the Company incorrectly estimate the values at acquisition or the undiscounted cash flows, initial allocations of purchase price and future impairment charges may be different.

Real estate is stated at depreciated cost, which in the opinion of management is not in excess of the individual property's estimated undiscounted future cash flows, including estimated proceeds from disposition. The cost of buildings and improvements include the purchase price of the property, legal fees and acquisition costs. Certain qualifying costs related to development properties are capitalized. Capitalized development costs include interest, wages, property taxes, insurance and other project costs incurred during the period of development.

The Company periodically reviews its properties to determine if their carrying amounts will be recovered from future operating cash flows. 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 are considered on an undiscounted basis in the analysis that the Company conducts 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. If the Company determines that an impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date.

The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential 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 ceases cost capitalization when the property is held available for occupancy upon substantial completion of tenant improvements, but no later than one year from the completion of major construction activity. Interest costs capitalized for the years ended December 31, 2002, 2001 and 2000 were $22.5 million, $59.3 million and $37.7 million,

respectively. Salaries and related costs capitalized for the years ended December 31, 2002, 2001 and 2000 were $4.4 million, $5.8 million and $4.9 million, respectively.

The Company accounts for properties as held for sale under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which typically occurs upon the execution of a purchase and sale agreement. Upon determining that a property is held for sale, the Company discontinues depreciating the property and reflects the property at the lower of its carrying amount or fair value less the cost to sell in its consolidated balance sheets.

The acquisitions of minority interests for shares of the Company's Common Stock are recorded under the purchase method with assets acquired reflected at the fair market value of the Company's Common Stock on the date of acquisition. The acquisition amounts are allocated to real estate based on their estimated fair values.

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.

Depreciation is computed on the 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 $100,000. 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 real estate purchase and sale transactions, security deposits, property taxes, insurance and other costs.

Investments in Securities

The Company accounts for investments in securities of publicly traded companies in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Investments" and has classified the securities as available-for-sale. Investments in securities of non-publicly traded companies are recorded at cost, as they are not considered marketable under SFAS No. 115. During the years ended December 31, 2002 and 2001, the Company realized losses totaling $4.3 million and $6.5 million related to the write-down of securities of three technology companies. The Company determined that the decline in the fair value of these securities was other than temporary as defined by SFAS No. 115.

Tenant and other receivables

Tenant and other receivables are expected to be collected within one year and are reported net of estimated unrecoverable amounts of approximately $3.7 million and $2.4 million at December 31, 2002 and 2001, respectively.

Deferred Charges

Deferred charges include leasing costs and financing costs. Direct and incremental fees and costs incurred in the successful negotiation of leases, including brokerage, legal, internal leasing employee salaries and other costs 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, 2002, 2001 and 2000 were approximately $0.7 million, $0.8 million and $0.2 million, respectively. External fees and costs incurred to obtain 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

The Company accounts for its investments in joint ventures, which it does not control, using the equity method of accounting. Under the equity method of accounting, the net equity investment of the Company is reflected on the consolidated balance sheets, and the Company's share of net income or loss from the joint ventures is included on 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.

To the extent that the Company contributes assets to a joint venture, the Company's investment in 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 income of the joint venture. In accordance with the provisions of Statement of Position 78-9 "Accounting for Investments in Real Estate Ventures", 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.

The Company serves as property manager for the joint ventures. The Company serves as the development manager for the joint ventures currently under development. The profit on development fees received from joint ventures is recognized to the extent attributable to the outside interests in the joint ventures. The Company has recognized development and management fee income earned from its joint ventures of approximately $5.0 million, $3.9 million and $2.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Equity Offering Costs

Underwriting commissions and offering costs are 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 primarily in the estimated useful lives used to compute depreciation. Common dividends paid represented 98%, 100% and 100% ordinary income and 2%, 0% and 0% capital gain income for federal income tax purposes for the years ended December 31, 2002, 2001 and 2000, respectively.

Revenue Recognition

Base 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 $51.0 million, $27.8 million and $12.7 million for the years ended December 31, 2002, 2001 and 2000, respectively. Accrued rental income represents rental income earned in excess of rent payments received pursuant to the terms of the individual lease agreements. The Company maintains an allowance for doubtful accounts against tenant and other receivables for estimated losses resulting from the inability of its tenants to make required rent payments. The computation of this allowance is based on the tenants' payment history and current credit status. The Company also 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 credit risk is mitigated by the high quality of the Company's tenant base, review of the tenant's risk profile prior to lease execution and continual 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 the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with EITF Issue 99-19 "Reporting Revenue Gross as a Principal versus Net as and Agent" ("Issue 99-19"). Issue 99-19 requires that these reimbursements be recorded gross, 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'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.

Development fees are recognized ratably over the period of development. Management fees are recognized as revenue as they are earned.

The estimated fair value of warrants received in conjunction with communications license agreements are recognized over the ten-year effective terms of the license agreements.

The Company recognizes gains on sales of real estate pursuant to the provisions of SFAS No. 66 "Accounting for Sales of Real Estate." The specific timing of a sale is measured against various criteria in SFAS No. 66 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, the Company defers gain recognition and accounts for the continued operations of the property by applying the finance, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Interest Expense and Interest Rate Protection Agreements

Interest expense on fixed rate debt with predetermined periodic rate increases is computed using the effective interest method over the terms of the respective loans.

From time to time, the Company enters into certain interest rate protection agreements to reduce the impact of changes in interest rates on its variable rate debt or in anticipation of issuing fixed rate debt. The fair value of these agreements is reflected on the Consolidated Balance Sheets. Changes in the fair value of these agreements are recorded in the Consolidated Statements of Operations to the extent the agreements are not effective for accounting purposes.

Earnings Per Share

Basic earnings per common share ("EPS") is computed by dividing net income available to common shareholders 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 through stock-based compensation including stock options, conversion of the minority interests in the Operating Partnership and conversion of the preferred stock of the Company.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, 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. The fair value of the Company's long-term indebtedness, which is based on the estimates of management and on rates currently quoted and rates currently prevailing for comparable loans and instruments of comparable maturities, exceeds the aggregate carrying value by approximately $172.5 million at December 31, 2002.

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 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 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.

In January 2002, the Company formed a taxable REIT subsidiary ("TRS"), IXP, Inc. (IXP) which acts as a captive insurance company to provide earthquake re-insurance coverage for the Company's Greater San Francisco properties. The accounts of IXP are consolidated within the Company. The captive TRS is subject to tax at the federal and state level, and accordingly, the Company has recorded a tax provision of $0.1 million for the year ended December 31, 2002 in the Company's Consolidated Statements of Operations.

Effective July 1, 2002, the Company restructured the leases with respect to ownership of its three hotel properties by forming a TRS. The hotel TRS, a wholly owned subsidiary of the Operating Partnership, is the lessee pursuant to new leases for each of the hotel properties. As lessor, the Operating Partnership is entitled to a percentage of gross receipts from the hotel properties. Marriott International, Inc. will continue 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 properties are being reflected in the Company's Consolidated Statements of Operations. The hotel TRS is subject to tax at the federal and state level, and accordingly, the Company has recorded a tax provision of $0.4 million for the six months ended December 31, 2002 in the Company's Consolidated Statements of Operations.

To assist the Company in maintaining its status as a REIT, the Company had previously leased its three in-service hotel properties, pursuant to leases with a participation in the gross receipts of such hotel properties, to a lessee ("ZL Hotel LLC") in which Messrs. Zuckerman and Linde, the Chairman of the Board and Chief Executive Officer, respectively, are the sole member-managers. Marriott International, Inc. manages these hotel properties under the Marriott® name pursuant to management agreements with the lessee. Rental revenue from these leases totaled approximately $12.2 million for the six-month period in 2002 prior to the formation of the hotel TRS and $31.3 million and $38.1 million for the years ended December 31, 2001 and 2000, respectively.

The net difference between the tax basis and the reported amounts of the Company's assets and liabilities is approximately $1.7 billion and $1.2 billion as of December 31, 2002 and 2001, respectively.

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.

Stock-based employee option plan

At December 31, 2002, the Company has stock based employee compensation plans, which are described more fully in Note 18. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income available to common shareholders and earnings per common share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Year Ended December 31,		
	2002	2001	2000
Net income available to common shareholders	$ 440,971	$ 201,440	$ 146,426
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of minority interest	(7,697)	(9,467)	(9,001)
Pro forma net income available to common shareholders	$ 433,274	$ 191,973	$ 137,425
Earnings per share:			
Basic—as reported	$ 4.73	$ 2.24	$ 2.05
Basic—pro forma	$ 4.65	$ 2.13	$ 1.92
Diluted—as reported	$ 4.66	$ 2.19	$ 2.01
Diluted—pro forma	$ 4.58	$ 2.08	$ 1.89

Reclassifications

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

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):

	2002	2001
Land	$ 1,647,808	$ 1,194,050
Land held for future development	215,866	182,672
Real estate held for sale, net of accumulated depreciation	224,585	—
Buildings and improvements	5,669,641	4,640,684
Tenant improvements	395,979	264,658
Furniture, fixtures and equipment	68,256	66,540
Development in process	448,576	1,109,302
Total	8,670,711	7,457,906
Less: Accumulated depreciation	(822,933)	(719,854)
	$ 7,847,778	$ 6,738,052

4. Deferred Charges

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

	2002	2001
Leasing costs	$ 203,954	$ 114,811
Financing costs	75,145	74,394
	279,099	189,205
Less: Accumulated amortization	(102,554)	(81,632)
	$ 176,545	$ 107,573

5. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consists of the following:

Entity	Property	Location	% Ownership
One Freedom Square LLC	One Freedom Square	Reston, VA	25%(1)
Square 407 LP	Market Square North	Washington, D.C.	50%
The Metropolitan Square Associates LLC	Metropolitan Square	Washington, D.C.	51%(2)
BP 140 Kendrick Street LLC	140 Kendrick Street	Needham, MA	25%(1)
BP/CRF 265 Franklin Street Holdings LLC	265 Franklin Street	Boston, MA	35%
Discovery Square LLC	Discovery Square	Reston, VA	50%
BP/CRF 901 New York Avenue LLC	901 New York Avenue(3)	Washington, D.C.	25%(1)
Two Freedom Square LLC	Two Freedom Square(3)	Reston, VA	50%

(1) Ownership can increase based on the achievement of certain return thresholds.

(2) Joint venture is accounted for under the equity method due to participatory rights of the outside partner.

(3) Property is currently under development

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

	December 31, 2002	December 31, 2001
Balance Sheets		
Real estate and development in process, net	$ 753,931	$ 720,568
Other assets	59,665	40,670
Total assets	$ 813,596	$ 761,238
Mortgage and construction loans payable	$ 558,362	$ 507,865
Other liabilities	13,436	16,497
Members' equity	241,798	236,876
Total liabilities and members' equity	$ 813,596	$ 761,238
Company's share of equity	$ 98,997	$ 95,516
Basis differentials(1)	2,908	2,969
Carrying value of the Company's investments in unconsolidated joint ventures	$ 101,905	$ 98,485

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

	Year Ended December 31, 2002	2001	2000
Statements of Operations			
Total revenue	$ 94,678	$ 80,813	$ 42,754
Expenses			
Operating	26,534	23,024	12,479
Interest	32,964	32,434	17,697
Depreciation and amortization	17,058	13,557	7,802
Total expenses	76,556	69,015	37,978
Net income	$ 18,122	$ 11,798	$ 4,776
Company's share of net income	$ 7,954	$ 4,186	$ 1,758

6. Mortgage Notes Payable

The Company had outstanding mortgage notes payable totaling $4.3 billion as of December 31, 2002, 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 $3.1 billion and $3.4 billion at December 31, 2002 and 2001, respectively, with interest rates ranging from 6.40% to 9.65% (averaging 7.17% and 7.27% at December 31, 2002 and 2001, respectively).

Variable rate mortgage notes payable (including construction loans payable) totaled approximately $1.1 billion and $866.0 million at December 31, 2002 and 2001, respectively, with interest rates ranging from 1.25% above the London Interbank Offered Rate ("LIBOR") (LIBOR was 1.38% and 1.87% at December 31, 2002 and 2001, respectively) to 1.95% above LIBOR.

At December 31, 2002, the Company had outstanding hedge contracts totaling $150.0 million. The hedging agreements provide for a fixed interest rate when LIBOR is less than 5.76% and when LIBOR is between 6.35% and 7.45% and between 7.51% and 9.00% for remaining terms ranging from one to three years per the individual hedging agreements.

A mortgage note payable totaling approximately $115.1 million at December 31, 2001 was subject to periodic scheduled interest rate increases. Interest expense for this mortgage note payable was computed using the effective interest method. A mortgage note payable totaling approximately $69.3 million at December 31, 2002 and two mortgage notes payable totaling approximately $220.7 million at December 31, 2001, have been accounted for at their fair value on the date the mortgage loans were assumed. The impact of using these accounting methods decreased interest expense by $2.2 million, $1.7 million and $3.6 million for the years ended December 31, 2002, 2001 and 2000, respectively. The cumulative liability related to these accounting methods was $5.8 million and $7.9 million at December 31, 2002 and 2001, respectively, and is included in mortgage notes payable.

Combined aggregate principal payments of mortgage notes payable at December 31, 2002 are as follows:

	(in thousands)
2003	$ 931,496
2004	411,855
2005	285,387
2006	284,458
2007	182,632
Thereafter	2,171,291

7. Unsecured Senior Notes

On December 13, 2002, the Company's Operating Partnership closed an unregistered offering of $750.0 million in aggregate principal amount of its 6.25% senior unsecured notes due 2013. The notes were priced at 99.65% of their face amount to yield 6.296%. The notes have been reflected net of discount of $2.6 million in the Consolidated Balance Sheets. The Company used the net proceeds to pay down its unsecured bridge loan incurred in connection with its September 2002 acquisition of 399 Park Avenue. In connection with the offering, the Company terminated treasury rate lock agreements at a cost of approximately $3.5 million that are being amortized over the term of the notes as an adjustment to interest expense.

The indenture relating to the unsecured senior notes contain 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 1.50, and (4) an unencumbered asset value to less than 150% of unsecured debt. At December 31, 2002, the Company was in compliance with each of these financial restrictions and requirements.

8. Unsecured Bridge Loan

On September 25, 2002, the Company obtained unsecured bridge financing totaling $1.0 billion (the "Unsecured Bridge Loan") in connection with the acquisition of 399 Park Avenue. During 2002, the Company repaid approximately $894.3 million with proceeds from the offering of unsecured senior notes and proceeds from the sales of certain real estate properties. At December 31, 2002, the Unsecured Bridge Loan had an outstanding balance of approximately $105.7 million and currently bears interest at a variable rate of Eurodollar + 1.45% (2.89% for the contract in effect at December 31, 2002). The Unsecured Bridge Loan matures in September 2003 and may be prepaid at any time prior to its maturity without a prepayment penalty.

The terms of the Unsecured Bridge Loan require that the Company maintain a number of customary financial and other covenants on an ongoing basis including among other things, (1) unsecured loan-to-value ratio against total borrowing base not to exceed 55%, unless the Company's leverage ratio exceeds 60%, in which case it is not to exceed 50%, (2) a secured debt leverage ratio not to exceed 55%, (3) debt service coverage ratio of 1.40 for the Company's borrowing base, or 1.50 if the Company's leverage ratio equals or exceeds 60%, a fixed charge ratio of 1.30, and a debt service coverage ratio of 1.50 (4) a leverage ratio not to exceed 60%, however for five consecutive quarters (not including the two quarters prior to expiration) leverage can go to 65% (5) limitations on additional indebtedness and stockholder distributions, and (6) a minimum net worth requirement. At December 31, 2002, the Company was in compliance with each of these financial and other covenant requirements.

9. Unsecured Line of Credit

As of December 31, 2002, the Company had an agreement for a $605.0 million unsecured revolving credit facility (the "Unsecured Line of Credit") maturing in March 2003. Outstanding balances under the Unsecured Line of Credit currently bear interest at a floating rate based on an increase over Eurodollar from 105 to 170 basis points or an increase over the lender's prime rate from zero to 75 basis points, depending upon the Company's applicable leverage ratio. The Unsecured Line of Credit requires payments of interest only.

The Company had an outstanding balance on the Unsecured Line of Credit of $173.9 million at December 31, 2002 of which approximately $146.9 million is collateralized by the Company's 875 Third Avenue property and is included in Mortgage Notes Payable. There was no outstanding balance at December 31, 2001. The weighted-average balance outstanding was approximately $15.2 million and $11.3 million during the year ended December 31, 2002 and 2001, respectively. The weighted-average interest rate on amounts outstanding was approximately 3.03% and 5.49% during the year ended December 31, 2002 and 2001, 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 among other things, (1) unsecured loan-to-value ratio against total borrowing base not to exceed 55%, unless the Company's leverage ratio exceeds 60%, in which case it is not to exceed 50%, (2) a secured debt leverage ratio not to exceed 55%, (3) debt service coverage ratio of 1.40 for the Company's borrowing base, or 1.50 if the Company's leverage ratio equals or exceeds 60%, a fixed charge ratio of 1.30, and a debt service coverage ratio of 1.50 (4) a leverage ratio not to exceed 60%, however for five consecutive quarters (not including the two quarters prior to expiration) leverage can go to 65% (5) limitations on additional indebtedness and stockholder distributions, and (6) a minimum net worth requirement. At December 31, 2002, the Company was in compliance with each of these financial and other covenant requirements.

10. Commitments and Contingencies

General

The Company has letter of credit and performance obligations of approximately $39.3 million primarily related to its wholly owned subsidiary IXP and certain other development and lender requirements.

The Company has indebtedness guarantee obligations with lenders primarily related to construction loans. At December 31, 2002, the Company had obligations outstanding totaling approximately $2.8 million in excess of its share of indebtedness related to the construction loan of a joint venture property.

The Company's joint venture agreements generally include provisions whereby 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.

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.

Insurance

The Company carries insurance coverage on its properties of types and in amounts that it believes are in line with coverage customarily obtained by owners of similar properties. The Company believes that all of its properties are adequately insured. The property insurance that the Company maintains for its properties has historically been on an "all risk" basis, which until 2002 included losses caused by acts of terrorism. Following the terrorist activity of September 11, 2001 and the resulting uncertainty in the insurance market, insurance companies generally excluded insurance against acts of terrorism from their "all risk" policies. As a result the Company's "all risk" insurance coverage currently contains specific exclusions for losses attributable to acts of terrorism. In light of this development, in 2002 the Company purchased stand-alone terrorism insurance on a portfolio-wide basis with annual aggregate limits that the Company considers commercially reasonable, considering the availability and cost of such coverage. The federal Terrorism Risk Insurance Act, enacted in November 2002, requires regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute) under property insurance policies, but the Company cannot currently anticipate whether the scope and cost of such coverage will compare favorably to stand-alone terrorism insurance, and thus whether it will be commercially reasonable for the Company to change its coverage for acts of terrorism going forward. The Company will continue to monitor the state of the insurance market, but does not currently expect that coverage for acts of terrorism on terms comparable to pre-2002 policies will become available on commercially reasonable terms.

The Company carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to deductibles and self-insurance that it believes are commercially reasonable. However, the amount of the Company's earthquake insurance coverage may not be sufficient to cover losses from earthquakes. As a result of increased costs of coverage and decreased availability, the amount of third party earthquake insurance that the Company may be able to purchase on commercially reasonable terms may be reduced. In addition, the Company may discontinue earthquake insurance on some or all of its properties in the future if the premiums exceed the Company's estimation of the value of the coverage.

In January 2002, the Company formed a wholly-owned insurance subsidiary, IXP, Inc. ("IXP"), to act as a captive insurance company and be one of the elements of its overall insurance program. IXP has acted as a reinsurer for the Company's primary carrier with respect to a portion of its earthquake insurance coverage for its Greater San Francisco properties. In the future IXP may provide additional or different coverage, as a reinsurer or a primary insurer, depending on the availability and cost of third party insurance in the marketplace and the level of self insurance that the Company believes is commercially reasonable. The accounts of IXP are consolidated within the Company.

There are other types of losses, such as from wars, acts of bio-terrorism 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.

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 with respect to its 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 or results of operations, and the Company is not otherwise aware of environmental conditions with respect to its properties which the Company believes would have such a material adverse effect. However, from time to time pre-existing environmental conditions at its properties have required environmental testing and/or regulatory filings.

In February 1999, one of the Company's affiliates 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 recently completed development of an office park on the property. The Company's affiliate engaged a specially licensed environmental consultant to oversee the management of contaminated soil and groundwater that was disturbed in the course of construction. Pursuant to 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 remediating such releases and discharges as necessary and appropriate to comply with applicable requirements, and (3) indemnify the Company's affiliate for certain losses arising from preexisting site conditions. Any indemnity claim may be subject to various defenses.

Environmental investigations at two of the Company's properties in Massachusetts have identified groundwater contamination migrating from off-site source properties. In both cases the Company engaged a specially licensed environmental consultant to perform the necessary investigations and assessments and to prepare submittals to the state regulatory authority, including Downgradient Property Status Opinions. The environmental consultant concluded that the properties qualify for Downgradient Property Status under the state regulatory program, 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 amendments regarding upgradient releases. Although the Company believes that the current or former owners of the upgradient source properties may ultimately be responsible for some or all of the costs of addressing the identified groundwater contamination, the Company will take necessary further response actions (if any are required). No such additional response actions are anticipated at this time.

One of the Company's affiliates recently acquired a property in Massachusetts where historic groundwater contamination was identified prior to acquisition. The Company engaged a specially licensed environmental consultant to perform investigations and to prepare necessary submittals to the state regulatory authority. The environmental consultant has concluded that (1) certain identified groundwater contaminants are migrating to the subject property from an off-site source property and (2) certain other detected contaminants are likely related to a historic release on the subject property. The Company has filed a Downgradient Property Status Opinion (described above) with respect to contamination migrating from off-site. The consultant has recommended conducting additional investigations, including the installation of off-site monitoring wells, to determine the nature and extent of contamination potentially associated with the historic use of the subject property. The Company's affiliate has authorized such additional investigations and will take necessary further response actions (if any are required).

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 in connection with construction and other property operations in order to achieve regulatory closure and 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 recently acquired a parcel in Massachusetts, formerly used as a quarry/asphalt batching facility, which the Company may develop in the future. Pre-purchase testing indicated that the site contains relatively low levels of certain contaminants. The Company has engaged a specially licensed environmental consultant to perform an environmental risk characterization and prepare all necessary regulatory submittals. The Company anticipates that additional response actions necessary to achieve regulatory closure (if any) will be performed in concert with future construction activities. When appropriate, closure documentation will be submitted for public review and comment pursuant to the state regulatory authority's public information process.

The Company expects that resolution of the environmental matters relating to the above will not have a material impact on its financial position, results of operations or liquidity.

Development

The Company has six properties currently under construction. Commitments to complete these projects totaled approximately $405.9 million at December 31, 2002. Of the remaining commitment, $371.7 million of the costs will be covered under its existing construction loans.

Sale of Property

The Operating Partnership Agreement provides that, until June 23, 2007, the Operating Partnership may not sell or otherwise transfer three designated properties (or a property acquired pursuant to the disposition of a designated property in a non-taxable transaction) in a taxable transaction without the prior written consent of Mr. Mortimer B. Zuckerman, Chairman of the Board of Directors and Mr. Edward H. Linde, President and Chief Executive Officer. The Operating Partnership is not required to obtain their consent if each of them does not continue to hold at least a specified percentage of their original OP Units. In connection with the acquisition or contribution of 31 other Properties, the Company entered into similar agreements for the benefit of the selling or contributing parties which specifically state the Operating Partnership will not sell or otherwise transfer the Properties in a taxable transaction until specified dates ranging from June 2006 to April 2016.

11. Minority Interests

Minority interests relate to the interest in the Operating Partnership not owned by the Company and interests in a property partnership not owned by the Company. As of December 31, 2002, the minority interest in the Operating Partnership consisted of 20,474,241 OP Units and 7,778,514 Preferred Units held by parties other than the Company.

On April 25, 2001, the Company acquired Citigroup Center through a venture with a private real estate investment company. This venture is consolidated with the financial results of the Company because the Company exercises control over the entity that owns the property. The equity interest in the venture that is not owned by the Company, totaling approximately $29.9 million and $34.4 million at December 31, 2002 and 2001, respectively is included in Minority Interests on the accompanying Consolidated Balance Sheets. The minority interest holder's share of income for Citigroup Center is reflective of the Company's preferential return on and of its capital.

On July 9, 2002, the Company issued 1,066,229 shares of Common Stock with a fair value of approximately $41.2 million on the date of issuance, as a result of the conversion of 812,469 Preferred Units into 1,066,229 OP Units, which OP Units were immediately acquired by Boston Properties, Inc. in exchange for an equal number of shares of Common Stock. These Preferred Units that were converted had a book value of approximately $20.8 million on the date of conversion. The difference between the effective purchase price of the minority interest and the book value was approximately $20.4 million, which increased the recorded value of the underlying real estate. In addition, the Company paid the accrued preferred distributions due to the holders of Preferred Units that were converted.

The Preferred Units at December 31, 2002 consist of 2,377,853 Series One Preferred Units of limited partnership in the Operating Partnership (the "Series One Preferred Units"), which bear a preferred distribution of 7.25% per annum on a liquidation preference of $34.00 per unit and are convertible into OP Units at a rate of $38.25 per Preferred Unit and 5,400,661 Series Two Preferred Units of limited partnership in the Operating Partnership (the "Series Two Preferred Units"), which bear a preferred distribution at the greater of the distribution rate payable to common unitholders or an increasing rate, ranging from 5.00% to 7.00% per annum on a liquidation preference of $50.00 per unit and will be convertible into OP Units after December 31, 2002 at a rate of $38.10 per Preferred Unit. Distributions to holders of Preferred Units are recognized on a straight-line basis that approximates the effective interest method.

12. Redeemable Preferred Stock and Stockholders' Equity

As of December 31, 2002 the Company had 95,362,990 shares of Common Stock and no shares of Series A Convertible Redeemable Preferred Stock (the "Preferred Stock") outstanding.

On July 9, 2002, the Company issued 2,624,671 shares of Common Stock as a result of the conversion of all of the Company's 2,000,000 shares of Preferred Stock. In addition, the Company paid the accrued preferred dividends due to the holders of the Preferred Stock.

On September 14, 2001, the Board of Directors of the Company authorized a stock repurchase program under which the Company is permitted to purchase up to $100 million of the Company's outstanding Common Stock. As of December 31, 2002 and 2001, the Company had repurchased 78,900 shares of Common Stock for an aggregate cost of approximately $2.7 million.

13. Future Minimum Rents

The Properties are leased to tenants under net operating leases with initial term expiration dates ranging from 2003 to 2029. The future minimum lease payments to be received (excluding operating expense reimbursements) by the Company as of December 31, 2002, under non-cancelable operating leases (including leases for properties under development), which expire on various dates through 2029, are as follows:

Years Ending December 31,		(in thousands)
2003	$	930,297
2004		914,508
2005		845,283
2006		761,170
2007		665,168
Thereafter		4,008,713

The geographic concentration of the future minimum lease payments to be received is detailed as follows:

Location		(in thousands)
Midtown Manhattan	$	4,233,706
Greater Washington, D.C.		1,235,331
Greater Boston		1,472,107
Greater San Francisco		880,795
New Jersey and Pennsylvania		303,199

No one tenant represented more than 10.0% of the Company's total rental revenue for the years ended December 31, 2002, 2001 and 2000.

14. Segment Reporting

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

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

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 be using the same definition for net operating income. As discussed in Note 2 and effective as of July 1, 2002, the revenue and expenses of the hotel properties have been included in the operations of the Company. The operations of the hotel properties were reflected in the periods prior to July 1, 2002 as a net lease payment in rental revenue and real estate tax expense in property operating expenses.

Information by Geographic Area and Property Type:

For the year ended December 31, 2002:

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey and Pennsylvania	Total
Rental Revenue:						
Class A Office	$ 266,930	$ 217,928	$ 313,788	$ 220,153	$ 66,725	$ 1,085,524
Office/Technical	8,230	14,334	—	1,899	—	24,463
Industrial	1,019	—	—	659	762	2,440
Hotels	57,489	—	—	—	—	57,489
Total	333,668	232,262	313,788	222,711	67,487	1,169,916
% of Grand Totals	28.52%	19.85%	26.82%	19.04%	5.77%	100.00%
Rental Expenses:						
Class A Office	99,653	60,501	97,203	77,222	25,072	359,651
Office/Technical	1,787	2,686	—	387	—	4,860
Industrial	332	—	—	70	139	541
Hotels	34,273	—	—	—	—	34,273
Total	136,045	63,187	97,203	77,679	25,211	399,325
% of Grand Totals	34.07%	15.82%	24.34%	19.45%	6.32%	100.00%
Net operating income	$ 197,623	$ 169,075	$ 216,585	$ 145,032	$ 42,276	$ 770,591
% of Grand Totals	25.64%	21.94%	28.11%	18.82%	5.49%	100.00%

For the year ended December 31, 2001:

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey and Pennsylvania	Total
Rental Revenue:						
Class A Office	$ 226,573	$ 216,236	$ 180,360	$ 213,950	$ 65,689	$ 902,808
Office/Technical	7,837	14,445	—	2,022	—	24,304
Industrial	1,199	677	—	620	724	3,220
Hotels	32,330	—	—	—	—	32,330
Total	267,939	231,358	180,360	216,592	66,413	962,662
% of Grand Totals	27.83%	24.03%	18.74%	22.50%	6.90%	100.00%
Rental Expenses:						
Class A Office	82,919	57,288	63,659	74,930	23,825	302,621
Office/Technical	1,871	2,495	—	357	—	4,723
Industrial	425	260	—	66	122	873
Hotels	5,781	—	—	—	—	5,781
Total	90,996	60,043	63,659	75,353	23,947	313,998
% of Grand Totals	28.98%	19.12%	20.27%	24.00%	7.63%	100.00%
Net operating income	$ 176,943	$ 171,315	$ 116,701	$ 141,239	$ 42,466	$ 648,664
% of Grand Totals	27.28%	26.41%	17.99%	21.77%	6.55%	100.00%

For the year ended December 31, 2000:

	Greater Boston	Greater Washington, D.C.	Midtown Manhattan	Greater San Francisco	New Jersey and Pennsylvania	Total
Rental Revenue:						
Class A Office	$ 195,300	$ 204,903	$ 110,675	$ 183,367	$ 63,272	$ 757,517
Office/Technical	5,912	15,696	—	1,851	—	23,459
Industrial	1,921	1,348	—	586	714	4,569
Hotels	38,703	—	—	—	—	38,703
Total	241,836	221,947	110,675	185,804	63,986	824,248
% of Grand Totals	29.34%	26.93%	13.45%	22.54%	7.76%	100.00%
Rental Expenses:						
Class A Office	72,104	55,308	39,666	63,650	22,085	252,813
Office/Technical	2,315	3,040	—	334	—	5,689
Industrial	553	452	—	58	117	1,180
Hotels	4,694	—	—	—	—	4,694
Total	79,666	58,800	39,666	64,042	22,202	264,376
% of Grand Totals	30.14%	22.24%	15.00%	24.22%	8.40%	100.00%
Net operating income	$ 162,170	$ 163,147	$ 71,009	$ 121,762	$ 41,784	$ 559,872
% of Grand Totals	28.97%	29.14%	12.68%	21.75%	7.46%	100.00%

The following is a reconciliation of net operating income to income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains (losses) on sales of real estate and land held for development, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend:

	2002	2001	2000
Net operating income	$ 770,591	$ 648,664	$ 559,872
Add:			
Development and management services	10,748	12,167	11,837
Interest and other	5,504	12,183	8,558
Less:			
General and administrative	47,292	38,312	35,659
Interest expense	263,067	211,391	204,900
Depreciation and amortization	180,005	143,779	127,910
Net derivative losses	11,874	26,488	—
Loss from early extinguishment of debt	2,386	—	433
Losses on investments in securities	4,297	6,500	—
Income before minority interests in property partnerships, income from unconsolidated joint ventures, minority interest in Operating Partnership, gains (losses) on sales of real estate and land held for development, discontinued operations, cumulative effect of a change in accounting principle and preferred dividend	$ 277,922	$ 246,544	$ 211,365

15. Loss from Early Extinguishment of Debt

In accordance with SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections", effective for fiscal years beginning after May 15, 2002, any gain or loss on extinguishments of debt in prior periods that do not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. During the years ended December 31, 2002, 2001 and 2000, the Company recognized approximately $2.4 million, $0 and $0.4 million, respectively, related to the early extinguishment of debt, consisting primarily of payments of a prepayment fee and the write-off of unamortized deferred financing costs. These amounts have been reclassified from extraordinary items to "Losses from early extinguishments of debt" in the Consolidated Statements of Operations.

16. Earnings Per Share

Earnings per common share ("EPS") has been computed pursuant to the provisions of SFAS No. 128. The following table provides a reconciliation of both net income and the number of common shares used in the computation of basic EPS, which utilizes the weighted average number of common shares outstanding without regard to the dilutive potential common shares, and diluted EPS, which includes all shares, as applicable.

	For the year ended December 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings Per Share:			
Income available to common shareholders	$ 440,971	93,145	$ 4.73
Effect of Dilutive Securities:			
Stock Options and other	155	1,467	(.07)
Diluted Earnings Per Share:			
Income available to common shareholders	$ 441,126	94,612	$ 4.66

	For the year ended December 31, 2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings Per Share:			
Income available to common shareholders	$ 201,440	90,002	$ 2.24
Effect of Dilutive Securities:			
Stock Options and other	244	2,198	(.05)
Diluted Earnings Per Share:			
Income available to common shareholders	$ 201,684	92,200	$ 2.19

	For the year ended December 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic Earnings Per Share:			
Income available to common shareholders	$ 146,426	71,424	$ 2.05
Effect of Dilutive Securities:			
Stock Options	—	1,317	(.04)
Diluted Earnings Per Share:			
Income available to common shareholders	$ 146,426	72,741	$ 2.01

17. Employee Benefit Plan

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 $200,000, indexed for inflation) and by eliminating the vesting requirement.

The Plan provides that matching employer contributions are to be determined at the discretion of the Company. The Company's matching contribution for the years ended December 31, 2002, 2001 and 2000 was $2.0 million, $1.8 million and $1.7 million, respectively.

18. 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 executives and rewarding them for superior performance in achieving the Company's business goals and enhancing stockholder value.

Under the plan, the number of shares of Common Stock available for issuance is 14,699,162 shares plus as of the first day of each calendar quarter after January 1, 2000, 9.5% of any net increase since the first day of the preceding calendar quarter in the total number of shares of Common Stock outstanding, on a fully converted basis (excluding Preferred Stock). At December 31, 2002, the number of shares available for issuance under the plan was 3,192,911.

Options granted under the plan become exercisable over a two, three or five year period and have terms of ten years. All options were granted at the fair market value of the Company's Common Stock at the dates of grant.

The Company issued 52,750, 44,842 and 34,822 shares of restricted stock under the plan during the years ended December 31, 2002, 2001 and 2000, respectively. The shares of restricted stock were valued at approximately $2.0 million ($37.70 per share), $1.8 million ($40.75 per share) and $1.1 million

($30.4375 per share) for the years ended December 31, 2002, 2001 and 2000, respectively. The restricted stock vests over a five-year period, with one-fifth of the shares vesting each year and has been recognized net of amortization as unearned compensation on the consolidated balance sheets. Compensation expense related to the restricted stock totaled $1.2 million, $0.6 million and $0.2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

A summary of the status of the Company's stock options as of December 31, 2002, 2001 and 2000 and changes during the years ended December 31, 2002, 2001 and 2000 are presented below:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2000	7,555,458	$ 31.20
Granted	1,072,750	$ 30.60
Exercised	(511,281)	$ 30.59
Canceled	(15,245)	$ 33.20
Outstanding at December 31, 2000	8,101,682	$ 31.15
Granted	3,247,250	$ 41.60
Exercised	(406,371)	$ 30.40
Canceled	(35,003)	$ 33.60
Outstanding at December 31, 2001	10,907,558	$ 34.28
Granted	1,423,000	$ 37.73
Exercised	(329,704)	$ 30.28
Canceled	(38,509)	$ 37.13
Outstanding at December 31, 2002	11,962,345	$ 34.80

The per share weighted-average fair value of options granted was $3.31, $5.01 and $3.79 for the years ended December 31, 2002, 2001 and 2000, respectively. The per share fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 2002, 2001 and 2000.

	2002	2001	2000
Dividend yield	6.47%	5.72%	6.90%
Expected life of option	6 Years	6 Years	6 Years
Risk-free interest rate	3.32%	5.13%	6.51%
Expected stock price volatility	20%	20%	20%

The following table summarizes information about stock options outstanding at December 31, 2002:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/02	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 12/31/02	Weighted-Average Exercise Price
$25.00 - $36.81	7,313,845	5.46 Years	$ 31.23	6,672,512	$ 31.14
$37.70 - $42.12	4,648,500	7.95 Years	$ 40.41	1,876,592	$ 41.59

In addition, the Company had 4,999,346 and 3,397,714 options exercisable at weighted-average exercise prices of $31.37 and $32.11 at December 31, 2002 and 2001, 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 at the end of the biannual purchase periods shares of Common Stock for 85% of the average closing price during the last ten business days of the purchase period. The Company issued 8,595, 8,538 and 11,105 shares with the weighted average fair value of the purchase right equal to $33.09 per share, $36.02 per share and $28.15 per share under the Stock Purchase Plan as of December 31, 2002, 2001 and 2000, respectively.

The Company applies Accounting Practice Bulletin No. 25 and related interpretations in accounting for its stock option and stock purchase plans. Accordingly, no compensation cost has been recognized.

The compensation cost under SFAS No. 123 for the stock performance-based plans would have been $9.4 million, $11.7 million and $12.0 million for the years ended December 31, 2002, 2001 and 2000, respectively. Had compensation cost for the Company's grants for stock-based compensation plans been determined consistent with SFAS No. 123, the Company's net income available to common shareholders, and net income per common share for 2002, 2001 and 2000 would approximate the pro forma amounts below:

	2002	2001	2000
Net income available to common shareholders	$ 433,274	$ 191,973	$ 137,425
Net income per common share—basic	$ 4.65	$ 2.13	$ 1.92
Net income per common share—diluted	$ 4.58	$ 2.08	$ 1.89

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to future anticipated awards.

19. Selected Interim Financial Information (unaudited)

The tables below reflect the Company's selected quarterly information for the years ended December 31, 2002 and 2001. Certain 2002 and 2001 amounts have been reclassified to conform to the current presentation of discontinued operations.

	2002 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Total revenue	$ 262,565	$ 277,498	$ 295,308	$ 350,797
Income before minority interest in Operating Partnership	65,879	72,074	71,152	78,836
Net income available to common shareholders	55,365	54,775	71,541	260,146
Income available to common shareholders per share—basic	.61	.60	.75	2.73
Income available to common shareholders per share—diluted	.60	.59	.74	2.70

	2001 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Total revenue	$ 224,698	$ 247,167	$ 257,628	$ 257,519
Income before minority interest in Operating Partnership	64,781	62,844	55,628	68,562
Income available to common shareholders before cumulative effect of a change in accounting principle	52,374	49,038	51,515	55,280
Net income available to common shareholders	45,607	49,038	51,515	55,280
Income available to common shareholders before cumulative effect of a change in accounting principle per share—basic	.59	.54	.57	.61
Income available to common shareholders before cumulative effect of a change in accounting principle per share—diluted	.57	.53	.55	.60

20. Pro Forma Financial Information (unaudited)

The accompanying unaudited pro forma information for the year ended December 31, 2002 is presented as if the acquisition of 399 Park Avenue on September 25, 2002 and the dispositions of Fullerton Square on March 4, 2002, 7600, 7700, and 7702 Boston Boulevard on March 4, 2002, One and Two Independence Square on November 22, 2002, 2391 West Winton on December 2, 2002, the Candler Building on January 28, 2003, 875 Third Avenue on February 4, 2003 and 2300 N Street on March 18, 2003 had occurred prior to January 1, 2002. This pro forma information is based upon the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto.

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

	Year Ended December 31, 2002
	(in thousands, except per share data)
Total revenue	$ 1,231,946
Net income available to common shareholders	$ 229,120
Basic earnings per share:	
Net income available to common shareholders	$ 2.46
Weighted average number of common shares outstanding	93,145
Diluted earnings per share:	
Net income available to common shareholders	$ 2.42
Weighted average number of common and common equivalent shares outstanding	94,612

21. Derivative Instruments and Hedging Activities

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137 and SFAS No. 138 ("SFAS No. 133"), as of January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the Company's consolidated balance sheets at fair value. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the hedge accounting criteria of SFAS No. 133 are recognized in earnings. For derivatives designated as hedging instruments in qualifying cash flow hedges, the effective portion of changes in fair value of the derivatives are recognized in accumulated other comprehensive income (loss) until the forecasted transactions occur and the ineffective portions are recognized in earnings.

On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of the variability of cash flows that are to be received or paid in connection with a recognized liability (a "cash flow" hedge), or (2) an instrument that is held for non-hedging purposes (a "non-hedging" instrument). Changes in the fair value of a derivative that is highly effective as—and that is designated and qualifies as—a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the hedged transaction (i.e. until periodic settlements of a variable-rate liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings. Changes in the fair value of non-hedging instruments are reported in current-period earnings.

The Company occasionally executes a financial instrument in which a derivative instrument is "embedded." Upon executing the financial instrument, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as either (1) a fair-value or cash flow hedge or (2) a trading or non-hedging derivative instrument. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Company could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument. Pursuant to SFAS No. 137, the Company has selected January 1, 1999 as the transition date for embedded derivatives.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to (1) specific assets and liabilities on the balance sheet or (2) forecasted transactions. The Company also assesses and documents, both at the hedging instrument's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows associated with the hedged items. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings.

The Company entered into interest rate protection agreements during 2000, generally for the purpose of fixing interest rates on variable rate construction loans in order to reduce the budgeted interest costs on the Company's development projects, which would translate into higher returns on investment as the development projects come on-line. These interest rate protection agreements expire at varying dates through February 2005. Other derivatives are not linked to specific assets or liabilities but are used by the Company to manage risk of the overall portfolio. Amounts included in accumulated other comprehensive income related to the effective portion of cash flow hedges will be reclassified into earnings over the estimated life of the constructed asset.

Upon adoption of SFAS No. 133 on January 1, 2001, the Company recorded an asset of approximately $0.2 million (included in prepaid expenses and other assets) and recorded a liability of approximately $11.4 million for the fair values of these agreements. The offset for these entries was to a cumulative effect of a change in accounting principle and accumulated other comprehensive loss, respectively. Finally, the Company wrote-off deferred charges of approximately $1.6 million as a cumulative effect of a change in accounting principle.

The Company's derivatives also include investments in warrants to purchase shares of common stock of other companies. Based on the terms of the warrant agreements, the warrants meet the definition of a derivative and accordingly must be marked to fair value through earnings. The Company had been recording the warrants at fair value through accumulated other comprehensive loss as available-for-sale securities under SFAS No. 115. Upon adoption of SFAS No. 133 on January 1, 2001, the Company reclassified approximately $6.9 million, the fair value of the warrants, from accumulated other comprehensive loss to a cumulative effect of a change in accounting principle.

During 2001, the Company paid the fair value of the swap arrangement and two hedge contracts that were entered into during 2000 and part of 2001 in order to terminate the contracts. In addition, for the year ended December 31, 2001, the Company recorded unrealized derivative losses through other comprehensive income of approximately $2.5 million, related to the effective portion of interest rate agreements. The Company expects that within the next twelve months it will reclassify into earnings approximately $347,000 of the amount recorded in accumulated other comprehensive loss relating to these agreements.

During 2002, the Company entered into treasury rate lock contracts designated and qualifying as a cash flow hedge to reduce its exposure to variability in future cash flows attributable to changes in the Treasury rate relating to a forecasted fixed rate financing. All components of the treasury rate lock agreements were included in the assessment of hedge effectiveness. The amount of hedge ineffectiveness was not material. The Company terminated these contracts upon the issuance of the fixed rate debt, and paid approximately $3.5 million, which is reflected in other comprehensive income. The loss reflected in accumulated other comprehensive loss will be reclassified into earnings over the term of the fixed rate debt. The Company expects that within the next twelve months it will reclassify into earnings approximately $351,000 of the amount recorded in accumulated other comprehensive loss relating to these agreements.

For the year ended December 31, 2002 and 2001, the Company recorded net derivative losses of approximately $11.9 million and $26.5 million through earnings, which represented the total ineffectiveness of all cash flow hedges and other non-hedging instruments, the changes in value of the embedded derivatives and the change in value of the warrants. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness, except for the time value of option contracts.

22. Discontinued Operations and Sales of Real Estate

In October 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes FASB SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions for disposals of a segment of a business as addressed in APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and addresses various implementation issues of SFAS No. 121. In addition, SFAS No. 144 extends the reporting requirements of discontinued operations to include components of an entity that have either been disposed of or are classified as held for sale. The Company adopted SFAS No. 144 as of January 1, 2002.

During the three months ended March 31, 2003, the Company disposed of three Class A office properties located in Baltimore, Maryland, Midtown Manhattan, New York and Washington, D.C. Due to the Company's continuing involvement in the management of the Washington, D.C. property after the sale, the Company has not categorized this property as discontinued operations in the accompanying Consolidated Statements of Operations.

During 2002, the Company disposed of five office/technical properties totaling 347,680 net rentable square feet in Springfield, Virginia, one industrial property totaling 220,213 net rentable square feet in Hayward, California and two Class A office properties totaling 917,459 net rentable square feet in Washington, DC. Due to the Company's continuing involvement in the management of the two Washington, DC properties through an agreement with the buyer, these properties are not categorized as discontinued operations in the accompanying consolidated statements of operations. As a result, the gain on sale related to the two Washington, DC properties, totaling approximately $186.8 million (net of minority interest share of approximately $41.1 million), has been reflected under the caption—gains (losses) on sales of real estate, in the consolidated statements of operations. The following table summarizes income from discontinued operations (net of minority interest) and the related realized

gains on sales of real estate from discontinued operations (net of minority interest) for the years ended December 31, 2002, 2001 and 2000:

	For the Year Ended December 31,		
	2002	2001	2000
		(in thousands)	
Total revenue	$ 50,704	$ 65,071	$ 50,635
Operating expenses	(17,666)	(17,401)	(16,250)
Interest expense	(8,618)	(11,998)	(12,164)
Depreciation and amortization	(6,423)	(6,384)	(5,240)
Minority interest allocation	(3,242)	(5,497)	(4,286)
Income from discontinued operations (net of minority interest)	$ 14,755	$ 23,791	$ 12,695
Realized gain on sale of real estate	$ 30,916	$ —	$ —
Minority interest allocation	(5,571)	—	—
Realized gain on sale of real estate (net of minority interest)	$ 25,345	$ —	$ —

At December 31, 2002, the Company had one Class A office property totaling approximately 711,901 net rentable square feet in Midtown Manhattan, NY designated as held for sale. The Company has ceased depreciation of this property, however, due to the Company's anticipated continuing involvement in the management of the property after the sale, the Company has not categorized this property as discontinued operations in the accompanying consolidated statements of operations.

The Company's adoption of SFAS No. 144 resulted in the presentation of the net operating results of these qualifying properties sold during 2002 and 2003, as income from discontinued operations for all periods presented. In addition, SFAS No. 144 resulted in the gains on sale of these qualifying properties totaling approximately $25.3 million (net of minority interest share of approximately $5.6 million) to be reflected as gains on sales of real estate from discontinued operations in the accompanying consolidated statements of operations. The adoption of SFAS No. 144 did not have an impact on net income available to common shareholders. SFAS No. 144 only impacted the presentation of these properties within the consolidated statements of operations.

23. Newly Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. SFAS No. 142 becomes effective beginning January 1, 2002. The Company adopted both these pronouncements for the year ended December 31, 2002 and neither had a material impact on its results of operations, financial position or liquidity.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 requires an entity to record a liability for an obligation associated with the retirement of an asset at the time the liability is incurred by capitalizing the cost as part of the carrying value of the related asset and depreciating it over the remaining useful life of that asset. The standard is effective beginning January 1, 2003. The changes required by SFAS No. 143 are not expected to have a material impact on the Company's results of operations, financial position or liquidity.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses how and when to measure impairment on long-lived assets and how to account for long-lived assets that an entity plans to dispose of either through sale,

---

abandonment, exchange, or distribution to owners. The Company adopted SFAS No. 144 as of January 1, 2002. See Note 22 for a discussion of the impact on the Company from the adoption of SFAS No. 144.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" which updates, clarifies, and simplifies certain existing accounting pronouncements beginning at various dates in 2002 and 2003. The statement rescinds SFAS No. 4 and SFAS No. 64, which required net gains or losses from the extinguishment of debt to be classified as an extraordinary item in the income statement. The Company anticipates that these gains and losses will no longer be classified as extraordinary items as they are not unusual and infrequent in nature. The changes required by SFAS No. 145 are not expected to have a material impact on the Company's results of operations, financial position or liquidity.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which becomes effective beginning January 1, 2003. This statement requires a cost associated with an exit or disposal activity, such as the sale or termination of a line of business, the closure of business activities in a particular location, or a change in management structure, to be recorded as a liability at fair value when it becomes probable the cost will be incurred and no future economic benefit will be gained by the Company for such termination costs, and costs to consolidate facilities or relocate employees. SFAS No. 146 supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity," which in some cases required certain costs to be recognized before a liability was actually incurred. The adoption of this standard is not expected to have a material impact on the Company's results of operations, financial position or liquidity.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under APB No. 25 to SFAS No. 123's fair value method of accounting, if a company so elects. The adoption of this standard is not expected to have a material impact on the Company's results of operations, financial position or liquidity.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS No. 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its results of operations, financial position or liquidity.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective

---

at the beginning of the first interim period beginning after June 15, 2003. The Company is currently assessing the impact of this statement.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN No. 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN No. 45 clarifies the requirements of SFAS No. 5, Accounting for Contingencies, relating to guarantees. In general, FIN No. 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. The disclosure requirements of FIN No. 45 are effective to the Company as of December 31, 2002, and require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN No. 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. The Company does not expect the requirements of FIN No. 45 to have a material impact on results of operations, financial position or liquidity.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN No. 46), "Consolidation of Variable Interest Entities." The objective of this interpretation is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected residual returns, if they occur. FIN No. 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation became effective upon issuance. The Company does not believe the adoption of this interpretation will have a material impact on results of operations, financial position or liquidity.

24. Related Party Transactions

The Company paid a printing company affiliated with Mr. Mortimer B. Zuckerman, Chairman of the Company's Board of Directors, approximately $76,000, $73,000 and $86,000 during the years ended December 31, 2002, 2001 and 2000, respectively, for printing services principally relating to the printing of the Company's annual report to shareholders. The selection of this company as the printer for the Company's annual report to shareholders was made through a bidding process open to multiple printing companies.

The Company paid aggregate leasing commissions of approximately $591,000, $571,000 and $734,000 during the years ended December 31, 2002, 2001 and 2000, respectively, to a firm controlled by Mr. Raymond A. Ritchey's brother. Mr. Ritchey is an Executive Vice President at the Company. Substantially all of these payments were made by two joint ventures in which the Company has a 50% interest. The terms of the related agreement are at least as favorable to the Company as arrangements with other brokers in comparable markets.

Mr. Martin Turchin, a director of the Company, is a non-executive/non-director Vice Chairman of Insignia. Through an arrangement with Insignia that has been in place since 1985, Turchin &

Associates, an affiliate of Mr. Turchin, participates in brokerage activities for which Insignia is retained as leasing agent, some of which involve leases for space within buildings owned by the Company. For the years ended December 31, 2002, 2001 and 2000, Turchin & Associates has advised the Company that it has received approximately $116,000, $943,000 and $437,000, respectively, from Insignia attributable to properties owned by the Company. Of this amount, $0.7 million is in conjunction with funds that the Company owed to Insignia related to the acquisition of 280 Park Avenue. The total amount that was paid to Turchin & Associates, excluding amounts paid related to obligations assumed in connection with the acquisition of 280 Park Avenue, represents approximately 4.83% of the total amount paid to Insignia by the Company since the date Mr. Turchin became a director of the Company in 1997. Pursuant to its arrangement with Insignia, 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 Insignia. Mr. Turchin does not participate in any discussions or other activities relating to the Company's contractual arrangements with Insignia either in his capacity as a member of the Company's Board of Directors or as a Vice Chairman of Insignia.

25. Subsequent Events

On January 17, 2003, the Company's Operating Partnership closed an unregistered offering of an additional $175.0 million in aggregate principal amount of its 6.25% senior unsecured notes due January 15, 2013. The notes were priced at 99.763% of their face amount to yield 6.28%. The Company used the net proceeds to repay the remaining balance of its unsecured bridge loan totaling approximately $105.7 million, to repay certain construction loans maturing in 2003 totaling approximately $60.0 million and for general business purposes.

On January 17, 2003, the Company extended its $605.0 million unsecured revolving credit facility (the "Unsecured Line of Credit") for a three year term expiring on January 17, 2006 with a provision for a one year extension. Outstanding balances under the Unsecured Line of Credit bear interest at a variable rate of Eurodollar + 0.70%. The interest rate is subject to adjustment in the event of a change in the Operating Partnership's unsecured debt ratings. The Unsecured Line of Credit contains a competitive bid option that allows the Company to bid out loan advances at a reduced Eurodollar rate.

On March 1, 2003, the Company renewed its "all risk" property insurance program that includes coverage for acts of terrorism (as defined by the statute) on an occurrence basis up to its policy limits.

On March 18, 2003, the Company's Operating Partnership closed an unregistered offering of $300.0 million in aggregate principal amount of its 5.625% senior unsecured notes due April 15, 2015. The notes were priced at 99.898% of their face amount to yield 5.636%. The Company used the net proceeds to refinance the mortgage debt on Five Times Square and for other general business purposes.

During the three months ended March 31, 2003, the Company disposed of three Class A office properties. On January 28, 2003, the Company disposed of the Candler Building, a Class A office property located in Baltimore, Maryland, for net proceeds of approximately $61.9 million, which approximated the carrying value. This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. On February 4, 2003, the Company disposed of 875 Third Avenue, a Class A office property located in Midtown Manhattan, New York for net proceeds of approximately $348.9 million, resulting in a gain on sale of approximately $91.7 million. This property has been categorized as discontinued operations in the accompanying Consolidated Statements of Operations. The Company's adoption of SFAS No. 144 resulted in the presentation of the net operating results of the qualifying properties sold during 2003, as income from discontinued

operations for all periods presented. The adoption of SFAS No. 144 did not have an impact on net income available to common shareholders. SFAS No. 144 only impacted the presentation of these properties within the consolidated statements of operations. On March 18, 2003, the Company disposed of 2300 N Street, a Class A office property located in Washington, D.C., for net proceeds of approximately $111.5 million, resulting in a gain on sale of approximately $64.7 million. Due to the Company's continuing involvement in the management of the property after the sale, the Company has not categorized this property as discontinued operations in the accompanying Consolidated Statements of Operations.

On April 1, 2003, the Company acquired the remaining 50% outside interest in its Discovery Square joint venture for cash of approximately $18.3 million and the assumption of mortgage debt on the property of approximately $32.4 million. Subsequent to the acquisition, the Company repaid in full the mortgage debt on the property totaling approximately $64.8 million.

On April 1, 2003, the Company repaid all amounts outstanding under its construction loan secured by Shaws Supermarket totaling $21.5 million.

On April 14, 2003, the Company refinanced the mortgage debt secured by its Five Times Square property in New York City totaling approximately $376.7 million utilizing proceeds from the $300 million offering of its senior unsecured notes in March 2003.

In April 2003, Mr. Zuckerman, Chairman of the Board of Directors of Boston Properties, Inc., acquired from a third party investor an office building located at 2400 N Street, N.W. in Washington D.C., in which a company affiliated with Mr. Zuckerman leases 100% of the building. The Company has managed this property under a third party management contract for many years. This transaction was approved in advance by the independent members of the Board of Directors of Boston Properties, Inc. Following the closing, the Company continues to manage this property under a customary contract with Mr. Zuckerman on terms comparable with other third party property management agreements that the Company currently has in place.

On May 22, 2003, the Company's Operating Partnership closed an offering of $250 million in aggregate principal amount of its 5.00% senior unsecured notes due June 1, 2015. The notes were priced at 99.329% of their face amount to yield 5.075%.

On May 22, 2003, the Company repaid its construction loan secured by 2600 Tower Oaks Boulevard totaling $31.0 million.

QuickLinks