BOSTON PROPERTIES INC
Form 10-Q
August 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2014

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

Commission File Number: 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**04-2473675**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103

(Address of principal executive offices) (Zip Code)

(617) 236-3300

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Common Stock, par value $.01 per share	**153,098,021**
(Class)	**(Outstanding on August 4, 2014)**

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended June 30, 2014

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PART I. FINANCIAL INFORMATION

ITEM 1 Financial Statements.

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

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

	June 30, 2014	December 31, 2013
ASSETS		
Real estate, at cost	$ 17,680,555	$ 17,158,210
Construction in progress	1,309,781	1,523,179
Land held for future development	273,587	297,376
Less: accumulated depreciation	(3,368,974)	(3,161,571)
Total real estate	15,894,949	15,817,194
Cash and cash equivalents	1,036,576	2,365,137
Cash held in escrows	59,248	57,201
Investments in securities	18,927	16,641
Tenant and other receivables (net of allowance for doubtful accounts of $1,496 and $1,636, respectively)	51,348	59,464
Accrued rental income (net of allowance of $6,756 and $3,636, respectively)	673,587	651,603
Deferred charges, net	853,924	884,450
Prepaid expenses and other assets	133,035	184,477
Investments in unconsolidated joint ventures	176,939	126,084
Total assets	$ 18,898,533	$ 20,162,251
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 4,411,453	$ 4,449,734
Unsecured senior notes (net of discount of $13,271 and $14,146, respectively)	5,836,729	5,835,854
Unsecured exchangeable senior notes (net of discount of $0 and $182, respectively)		744,880
Unsecured line of credit		
Mezzanine notes payable	310,427	311,040
Outside members notes payable	180,000	180,000
Accounts payable and accrued expenses	216,080	202,470
Dividends and distributions payable	112,420	497,242
Accrued interest payable	156,024	167,523
Other liabilities	539,716	578,969
Total liabilities	11,762,849	12,967,712
Commitments and contingencies		
Noncontrolling interests:		
Redeemable preferred units of the Operating Partnership	18,006	51,312
Redeemable interest in property partnership	103,778	99,609
Equity:		
Stockholders equity attributable to Boston Properties, Inc.:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding		
Preferred stock, $.01 par value, 50,000,000 shares authorized;		
	200,000	200,000

5.25% Series B cumulative redeemable preferred stock, $.01 par value, liquidation preference $2,500 per share, 92,000 shares authorized, 80,000 shares issued and outstanding at June 30, 2014 and December 31, 2013		
Common stock, $.01 par value, 250,000,000 shares authorized, 153,171,474 and 153,062,001 issued and 153,092,574 and 152,983,101 outstanding at June 30, 2014 and December 31, 2013, respectively	1,531	1,530
Additional paid-in capital	5,679,578	5,662,453
Dividends in excess of earnings	(176,929)	(108,552)
Treasury common stock at cost, 78,900 shares at June 30, 2014 and December 31, 2013	(2,722)	(2,722)
Accumulated other comprehensive loss	(10,429)	(11,556)
Total stockholders equity attributable to Boston Properties, Inc.	5,691,029	5,741,153
Noncontrolling interests:		
Common units of the Operating Partnership	601,775	576,333
Property partnerships	721,096	726,132
Total equity	7,013,900	7,043,618
Total liabilities and equity	$ 18,898,533	$ 20,162,251

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	$ 463,239	$ 399,192	$ 918,257	$ 772,238
Recoveries from tenants	81,382	68,321	163,316	132,640
Parking and other	26,300	23,547	50,633	46,984
Total rental revenue	570,921	491,060	1,132,206	951,862
Hotel revenue	12,367	11,118	20,560	19,409
Development and management services	6,506	7,855	11,722	16,588
Total revenue	589,794	510,033	1,164,488	987,859
Expenses				
Operating				
Rental	202,646	176,018	409,034	345,080
Hotel	7,315	7,335	14,112	14,379
General and administrative	23,271	24,316	53,176	69,832
Transaction costs	661	535	1,098	978
Impairment loss				8,306
Depreciation and amortization	154,628	133,456	308,898	252,909
Total expenses	388,521	341,660	786,318	691,484
Operating income	201,273	168,373	378,170	296,375
Other income (expense)				
Income from unconsolidated joint ventures	2,834	48,783	5,650	57,504
Gains on consolidation of joint ventures		387,801		387,801
Interest and other income	2,109	1,296	3,420	2,767
Gains from investments in securities	662	181	948	916
Gains from early extinguishments of debt		152		152
Interest expense	(110,977)	(103,140)	(224,531)	(203,573)
Income from continuing operations	95,901	503,446	163,657	541,942
Discontinued operations				
Income from discontinued operations		3,315		5,809
Gain on forgiveness of debt from discontinued operations				20,182
Impairment loss from discontinued operations				(3,241)
Net income	95,901	506,761	163,657	564,692
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	(7,553)	219	(11,907)	(2,355)
Noncontrolling interest redeemable preferred units of the Operating Partnership	(320)	(1,123)	(939)	(2,303)
Noncontrolling interest common units of the Operating Partnership	(8,883)	(50,489)	(15,010)	(54,784)
Noncontrolling interest in discontinued operations common units of the Operating Partnership		(333)		(2,393)
Net income attributable to Boston Properties, Inc.	79,145	455,035	135,801	502,857
Preferred dividends	(2,618)	(2,618)	(5,207)	(2,764)

Net income attributable to Boston Properties, Inc. common shareholders	$ 76,527	$ 452,417	$ 130,594	$ 500,093
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Income from continuing operations	$ 0.50	$ 2.93	$ 0.85	$ 3.14
Discontinued operations		0.02		0.13
Net income	$ 0.50	$ 2.95	$ 0.85	$ 3.27
Weighted average number of common shares outstanding	153,078	151,938	153,054	151,793
Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Income from continuing operations	$ 0.50	$ 2.92	$ 0.85	$ 3.13
Discontinued operations		0.02		0.13
Net income	$ 0.50	$ 2.94	$ 0.85	$ 3.26
Weighted average number of common and common equivalent shares outstanding	153,238	152,490	153,203	152,222

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
	(in thousands)			
Net income	$ 95,901	$ 506,761	$ 163,657	$ 564,692
Other comprehensive income:				
Amortization of interest rate contracts(1)	624	627	1,253	1,255
Other comprehensive income	624	627	1,253	1,255
Comprehensive income	96,525	507,388	164,910	565,947
Net income attributable to noncontrolling interests	(16,756)	(51,726)	(27,856)	(61,835)
Other comprehensive income attributable to noncontrolling interests	(64)	(63)	(126)	(127)
Comprehensive income attributable to Boston Properties, Inc.	$ 79,705	$ 455,599	$ 136,928	$ 503,985

(1) Amounts reclassified from comprehensive income primarily to interest expense within the Company s Consolidated Statements of Operations.

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited and in thousands)

	Common Stock						Accumulated		
	Shares	Amount	Preferred Stock	Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Other Comprehensive Loss	Noncontrolling Interests	Total
Equity, December 31, 2013	152,983	$ 1,530	$ 200,000	$ 5,662,453	$ (108,552)	$ (2,722)	$ (11,556)	$ 1,302,465	$ 7,043,618
Redemption of operating partnership units to common stock	66	1		2,240				(2,241)	
Conversion of redeemable preferred units to common units								33,306	33,306
Allocated net income for the year					135,801			20,448	156,249
Dividends/distributions declared					(204,178)			(22,673)	(226,851)
Shares issued pursuant to stock purchase plan	4			357					357
Net activity from stock option and incentive plan	40			3,543				12,899	16,442
Contributions from noncontrolling interests in property partnerships								1,675	1,675
Distributions to noncontrolling interests in property partnerships								(12,149)	(12,149)
Amortization of interest rate contracts							1,127	126	1,253
Reallocation of noncontrolling interest				10,985				(10,985)	
Equity, June 30, 2014	153,093	$ 1,531	$ 200,000	$ 5,679,578	$ (176,929)	$ (2,722)	$ (10,429)	$ 1,322,871	$ 7,013,900
Equity, December 31, 2012	151,601	$ 1,516	$	$ 5,222,073	$ (109,985)	$ (2,722)	$ (13,817)	$ 537,789	$ 5,634,854
Redemption of operating partnership units to common stock	334	4		10,305				(10,309)	
Allocated net income for the year					502,857			55,978	558,835
Dividends/distributions declared					(200,380)			(22,705)	(223,085)
Issuance of 5.25% Series B cumulative redeemable preferred stock			200,000	(6,080)					193,920
Shares issued in connection with exchange of Exchangeable Senior Notes	419	4		43,830					43,834
Equity component of exchange of Exchangeable Senior Notes				(43,869)					(43,869)
Shares issued pursuant to stock purchase plan	3			335					335
Net activity from stock option and incentive plan	28			5,353				20,388	25,741
Noncontrolling interests in property partnerships recorded upon consolidation								483,488	483,488
Contributions from noncontrolling interests in property partnerships								10,564	10,564
								(1,500)	(1,500)

Distributions to noncontrolling interests in property partnerships									
Amortization of interest rate contracts							1,128	127	1,255
Reallocation of noncontrolling interest				14,296				(14,296)	
Equity, June 30, 2013	152,385	$ 1,524	$ 200,000	$ 5,246,243	$ 192,492	$ (2,722)	$ (12,689)	$ 1,059,524	$ 6,684,372

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30, 2014	2013
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 163,657	$ 564,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	308,898	255,795
Non-cash compensation expense	16,899	32,464
Impairment loss		8,306
Income from unconsolidated joint ventures	(5,650)	(57,504)
Gains on consolidation of joint ventures		(387,801)
Distributions of net cash flow from operations of unconsolidated joint ventures	2,205	25,689
Gains from investments in securities	(948)	(916)
Non-cash portion of interest expense	(18,171)	20,120
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes	(92,979)	(56,532)
Gains from early extinguishments of debt		(264)
Gain on forgiveness of debt from discontinued operations		(20,182)
Impairment loss from discontinued operations		3,241
Change in assets and liabilities:		
Cash held in escrows	(2,047)	2,687
Tenant and other receivables, net	8,116	(7,018)
Accrued rental income, net	(21,984)	(29,127)
Prepaid expenses and other assets	51,442	17,708
Accounts payable and accrued expenses	(4,704)	1,399
Accrued interest payable	(11,499)	2,022
Other liabilities	(39,253)	(20,086)
Tenant leasing costs	(44,989)	(19,855)
Total adjustments	145,336	(229,854)
Net cash provided by operating activities	308,993	334,838
Cash flows from investing activities:		
Acquisitions of real estate		(522,900)
Construction in progress	(206,603)	(181,056)
Building and other capital improvements	(37,285)	(23,681)
Tenant improvements	(53,935)	(55,988)
Proceeds from the sale of real estate		39,320
Cash recorded upon consolidation		79,468
Repayments of notes receivable, net		12,491
Capital contributions to unconsolidated joint ventures	(47,767)	
Capital distributions from unconsolidated joint ventures	357	201,182
Investments in securities, net	(1,338)	(1,138)
Net cash used in investing activities	(346,571)	(452,302)

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30, 2014	2013
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(12,207)	(79,865)
Proceeds from unsecured senior notes		1,194,753
Repayment/redemption of unsecured exchangeable senior notes	(654,521)	(393,468)
Deferred financing costs	(31)	(8,546)
Net proceeds from preferred stock issuance		193,920
Net proceeds from equity transactions	1,162	(694)
Dividends and distributions	(612,612)	(223,451)
Contributions from noncontrolling interests in property partnerships	1,675	6,018
Distributions to noncontrolling interests in property partnerships	(14,449)	(4,450)
Net cash provided by (used in) financing activities	(1,290,983)	684,217
Net increase (decrease) in cash and cash equivalents	(1,328,561)	566,753
Cash and cash equivalents, beginning of period	2,365,137	1,041,978
Cash and cash equivalents, end of period	$ 1,036,576	$ 1,608,731
Supplemental disclosures:		
Cash paid for interest	$ 379,766	$ 271,177
Interest capitalized	$ 32,586	$ 32,854
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable and accrued expenses	$ 4,831	$ 4,746
Real estate and related intangibles recorded upon consolidation	$	$ 3,356,000
Debt recorded upon consolidation	$	$ 2,056,000
Working capital recorded upon consolidation	$	$ 170,748
Noncontrolling interests recorded upon consolidation	$	$ 483,488
Investment in unconsolidated joint venture eliminated upon consolidation	$	$ 361,808
Mortgage note payable extinguished through foreclosure	$	$ 25,000
Real estate transferred upon foreclosure	$	$ 7,508
Land improvements contributed by noncontrolling interest in property partnership	$	$ 4,546

Dividends and distributions declared but not paid	$	112,420	$	112,425
Issuance of common stock in connection with the exchange of exchangeable senior notes	$		$	43,834
Conversions of noncontrolling interests to stockholders equity	$	2,241	$	10,309
Conversions of redeemable preferred units to common units	$	33,306	$	
Issuance of restricted securities to employees	$	27,445	$	30,077

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

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Boston Properties, Inc. (the Company), a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT). The Company is the sole general partner of Boston Properties Limited Partnership (the Operating Partnership) and at June 30, 2014 owned an approximate 89.5% (89.2% at June 30, 2013) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as common units of partnership interest (also referred to as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units). In addition, in February 2011 and February 2012, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as 2011 OPP Units and 2012 OPP Units, respectively, and collectively as OPP Units). On January 31, 2014, the measurement period for the Company s 2011 OPP Unit awards expired and the Company s total return to shareholders (TRS) was not sufficient for employees to earn and therefore become eligible to vest in any of the 2011 OPP Unit awards. Accordingly, all 2011 OPP Unit awards were automatically forfeited (See Notes 7 and 10). In February 2013 and February 2014, the Company issued LTIP Units in connection with the granting to employees of multi-year, long-term incentive program (MYLTIP) awards (also referred to as 2013 MYLTIP Units and 2014 MYLTIP Units, respectively, and collectively as MYLTIP Units). Because the rights, preferences and privileges of OPP Units and MYLTIP Units differ from other LTIP Units granted to employees as part of the annual compensation process, unless specifically noted otherwise, all references to LTIP Units exclude OPP Units and MYLTIP Units (See Notes 7 and 10).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership is obligated to redeem such OP Unit for cash equal to the value of a share of common stock of the Company (Common Stock) at such time. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 8).

At June 30, 2014, there were two series of Preferred Units outstanding (i.e., Series Four Preferred Units and Series B Preferred Units).

The Series Four Preferred Units are not convertible into or exchangeable for any security of the Operating Partnership or the Company, have a per unit liquidation preference of $50.00 and are entitled to receive quarterly distributions of $0.25 per unit (or an annual rate of 2.00%) (See Notes 7 and 12).

The Series B Preferred Units were issued to the Company on March 27, 2013 in connection with the Company s issuance of 80,000 shares (8,000,000 depositary shares each representing 1/100th of a share) of 5.25% Series B Cumulative Redeemable Preferred Stock (the Series B Preferred Stock). The Company contributed the net proceeds from the offering to the Operating Partnership in exchange for 80,000 Series B Preferred Units having terms and preferences generally mirroring those of the Series B Preferred Stock (See Note 8).

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

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Properties

At June 30, 2014, the Company owned or had interests in a portfolio of 180 commercial real estate properties (the Properties) aggregating approximately 46.6 million net rentable square feet, including thirteen properties under construction totaling approximately 4.8 million net rentable square feet. In addition, the Company has structured parking for approximately 46,145 vehicles containing approximately 15.8 million square feet. At June 30, 2014, the Properties consist of:

- 171 office properties, including 132 Class A office properties (including twelve properties under construction) and 39 Office/Technical properties;

- one hotel;

- five retail properties (including one property under construction); and

- three residential properties.

The Company owns or controls undeveloped land parcels totaling approximately 492.1 acres.

The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been modernized to compete with newer buildings. The Company considers Office/Technical properties to be properties that support office, research and development, laboratory and other technical uses. The Company s definitions of Class A Office and Office/Technical properties may be different than those used by other companies.

2. Basis of Presentation and Summary of Significant Accounting Policies

Boston Properties, Inc. does not have any other significant assets, liabilities or operations, other than its investment in the Operating Partnership, nor does it have employees of its own. The Operating Partnership, not Boston Properties, Inc., generally executes all significant business relationships other than transactions involving securities of Boston Properties, Inc. All majority-owned subsidiaries and joint ventures over which the Company has financial and operating control and variable interest entities (VIE s) in which the Company has determined it is the primary beneficiary are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. The Company accounts for all other unconsolidated joint ventures using the equity method of accounting. Accordingly, the Company s share of the earnings of these joint ventures and companies is included in consolidated net income.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statements and notes thereto contained in the Company s Annual Report in the Company s Form 10-K for its fiscal year ended December 31, 2013. Certain prior year amounts have been reclassified to conform to the current year presentation. In the third quarter of 2013, the Company modified the presentation of expenses to operate its San Francisco and Princeton regional offices to reflect the growing activity in its San Francisco region and to have a consistent presentation across the Company. These expenses, which totaled approximately $2.1 million and $4.0 million for the three and six months ended June 30, 2013, respectively, were previously included in Rental Operating Expenses and are now

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included in General and Administrative Expenses. In addition, beginning on January 1, 2014, the properties that were historically part of the Company s Princeton region are reflected as the suburban component of the Company s New York region (See Note 11).

The Company follows the authoritative guidance for fair value measurements when valuing its financial instruments for disclosure purposes. The Company determines the fair value of its unsecured senior notes and unsecured exchangeable senior notes using market prices. The inputs used in determining the fair value of the Company s unsecured senior notes and unsecured exchangeable senior notes are categorized at a level 1 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company uses quoted market rates to value these instruments. However, the inputs used in determining the fair value could be categorized at a level 2 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) if trading volumes are low. The Company determines the fair value of its mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on current market rates for similar securities. In determining the current market rates, the Company adds its estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to its debt. The inputs used in determining the fair value of the Company s mortgage notes payable and mezzanine notes payable are categorized at a level 3 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company considers the rates used in the valuation techniques to be unobservable inputs.

Because the Company s valuations of its financial instruments are based on these types of estimates, the actual fair values of its financial instruments may differ materially if the Company s estimates do not prove to be accurate. The following table presents the aggregate carrying value of the Company s indebtedness and the Company s corresponding estimate of fair value as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014		December 31, 2013	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Mortgage notes payable	$ 4,411,453	$ 4,547,761	$ 4,449,734	$ 4,545,283
Mezzanine notes payable	310,427	310,457	311,040	311,064
Unsecured senior notes	5,836,729	6,229,201	5,835,854	6,050,517
Unsecured exchangeable senior notes			744,880(1)	750,266
Total	$ 10,558,609	$ 11,087,419	$ 11,341,508	$ 11,657,130

(1) Includes the net adjustment for the equity component allocation totaling approximately $2.4 million at December 31, 2013.

Out-of-Period Adjustment

During the three months ended June 30, 2014, the Company recorded an additional allocation of net income to the noncontrolling interest holder in its Fountain Square consolidated joint venture totaling approximately $2.4 million related to the cumulative non-cash adjustment to the accretion of the changes in the redemption value of the noncontrolling interest. This resulted in the overstatement of Noncontrolling Interests in Property Partnerships by approximately $2.4 million during the three months ended June 30, 2014 and in the understatement of Noncontrolling Interests in Property Partnerships in the aggregate amount of approximately $2.4 million in previous periods. Because this adjustment was not material to the prior periods consolidated financial statements and the impact of recording the adjustment in the then-current period was not material to the Company s consolidated financial statements, the Company recorded the related adjustment during the three months ended June 30, 2014.

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Recent Accounting Pronouncements

On April 10, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU No. 2014-08). ASU No. 2014-08 clarifies that discontinued operations presentation applies only to disposals representing a strategic shift that has (or will have) a major effect on an entity s operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity). ASU No. 2014-08 is effective prospectively for reporting periods beginning after December 15, 2014. Early adoption is permitted, and the Company early adopted ASU No. 2014-08 during the first quarter of 2014. The Company s adoption of ASU No. 2014-08 did not have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contract with Customers (Topic 606) (ASU 2014-09). The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying ASU 2014-9, companies will perform a five-step analysis of transactions to determine when and how revenue is recognized. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB s Accounting Standards Codification (ASC). ASU 2014-09 is effective for annual reporting periods (including interim periods within that reporting period) beginning after December 15, 2016 and shall be applied using either a full retrospective or modified retrospective approach. Early application is not permitted. The Company is currently assessing the potential impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (ASU 2014-12). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC Topic No. 718, Compensation Stock Compensation (ASC 718), as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company does not expect the adoption of ASU 2014-12 to have a material impact on its consolidated financial statements.

3. Real Estate Activity During the Six Months Ended June 30, 2014

Developments

On February 10, 2014, the Company completed and fully placed in-service The Avant at Reston Town Center development project comprised of 359 apartment units and retail space aggregating approximately 355,000 square feet located in Reston, Virginia.

On April 1, 2014, the Company commenced construction of its 99 Third Avenue development project totaling approximately 17,000 net rentable square feet of retail space located in Waltham, Massachusetts.

On April 3, 2014, the Company commenced construction of its 690 Folsom Street development project totaling approximately 26,000 net rentable square feet of office and retail space located in San Francisco, California.

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On April 10, 2014, a consolidated joint venture in which the Company has a 95% interest signed a lease with salesforce.com for 714,000 square feet at the new Salesforce Tower (formerly Transbay Tower), the 1.4 million square foot, 61-story Class A office development project currently under construction at 415 Mission Street in the South Financial District of San Francisco, California. In conjunction with the lease signing, the Company has commenced construction of the building.

On May 20, 2014, the Company commenced construction of its 888 Boylston Street development project totaling approximately 425,000 net rentable square feet of Class A office space located in Boston, Massachusetts.

On May 20, 2014, the Company commenced construction of its 10 CityPoint development project totaling approximately 245,000 net rentable square feet of Class A office space located in Waltham, Massachusetts.

Dispositions

The Company did not have any dispositions during the three and six months ended June 30, 2014. The following table summarizes the income from discontinued operations for the three and six months ended June 30, 2013 related to One Preserve Parkway, 10 & 20 Burlington Mall Road, 1301 New York Avenue, Montvale Center and 303 Almaden Boulevard and the related gain on forgiveness of debt and impairment loss:

	For the three months ended June 30, 2013	For the six months ended June 30, 2013
	(in thousands)	
Total revenue	$ 6,815	$ 13,850
Expenses		
Operating	2,352	4,795
Depreciation and amortization	1,148	2,886
Total expenses	3,500	7,681
Operating income	3,315	6,169
Other expense		
Interest expense		360
Income from discontinued operations	$ 3,315	$ 5,809
Noncontrolling interest in income from discontinued operations common units of the Operating Partnership	(333)	(587)
Income from discontinued operations attributable to Boston Properties, Inc.	$ 2,982	$ 5,222
Gain on forgiveness of debt from discontinued operations	$	$ 20,182
Impairment loss from discontinued operations		(3,241)
Noncontrolling interest in gain on forgiveness of debt and impairment loss from discontinued operations common units of the Operating Partnership		(1,806)
Gain on forgiveness of debt and impairment loss from discontinued operations attributable to Boston Properties, Inc.	$	$ 15,135

On June 11, 2014, the Company entered into a contract for the sale of its Patriots Park properties located in Reston, Virginia for a sale price of $321.0 million, which exceeds the carrying value at June 30, 2014. Patriots Park consists of three Class A office properties aggregating approximately 706,000 net rentable square feet. The sale is subject to government approvals and the satisfaction of customary closing conditions and there can be no assurance that the sale will be consummated on the terms currently contemplated or at all.

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4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at June 30, 2014:

Entity	Properties	Nominal % Ownership	Carrying Value of Investment (in thousands)
Square 407 Limited Partnership	Market Square North	50.0%	$ (9,112)
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%	6,561
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(1)	(1,974)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3%(2)	46,455
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(3)	23,763
2 GCT Venture LLC	N/A	60.0%(4)	326
540 Madison Venture LLC	540 Madison Avenue	60.0%	69,664
500 North Capitol LLC	500 North Capitol Street, NW	30.0%	(862)
501 K Street LLC	501 K Street	50.0%(5)	42,118
			$ 176,939

(1) The Company s economic ownership has increased based on the achievement of certain return thresholds.
(2) The Company s wholly-owned entity that owns the office component of the project also owns a 33.3% interest in the entity owning the land, parking garage and infrastructure of the project.
(3) The joint venture owns two in-service buildings, two buildings under construction and two undeveloped land parcels.
(4) Two Grand Central Tower was sold on October 25, 2011.
(5) Under the joint venture agreement, the partner will be entitled to up to two additional payments from the venture based on increases in total square footage of the project above 520,000 square feet and achieving certain project returns at stabilization.

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

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

	June 30, 2014	December 31, 2013
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 1,010,834	$ 924,297
Other assets	175,872	163,149
Total assets	$ 1,186,706	$ 1,087,446
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	$ 747,988	$ 749,732
Other liabilities	26,704	28,830
Members /Partners equity	412,014	308,884
Total liabilities and members /partners equity	$ 1,186,706	$ 1,087,446
Company s share of equity	$ 205,134	$ 154,726

Basis differentials(1)	(28,195)	(28,642)
Carrying value of the Company s investments in unconsolidated joint ventures	$ 176,939	$ 126,084

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	(in thousands)			
Total revenue(1)	$ 38,437	$ 99,831	$ 76,471	$ 235,481
Expenses				
Operating	15,461	32,497	30,925	74,863
Depreciation and amortization	9,167	27,141	18,259	66,418
Total expenses	24,628	59,638	49,184	141,281
Operating income	13,809	40,193	27,287	94,200
Other expense				
Interest expense	7,984	40,054	15,996	96,288
Losses from early extinguishment of debt		1,677		1,677
Income (loss) from continuing operations	5,825	(1,538)	11,291	(3,765)
Gain on sale of real estate		1,766		1,766
Net income (loss)	$ 5,825	$ 228	$ 11,291	$ (1,999)
Company s share of net income (loss)	$ 2,578	$ 683	$ 5,203	$ (1,175)
Gain on sale of real estate		43,327		43,327
Basis differential	256	(2,070)	447	(1,626)
Elimination of inter-entity interest on partner loan		6,843		16,978
Income from unconsolidated joint ventures	$ 2,834	$ 48,783	$ 5,650	$ 57,504
Gains on consolidation of joint ventures	$	$ 387,801	$	$ 387,801

(1) Includes straight-line rent adjustments of $0.3 million and $3.1 million for the three months ended June 30, 2014 and 2013, respectively, and $0.9 million and $7.1 million for the six months ended June 30, 2014 and 2013, respectively. Includes net below-market rent adjustments of $(0.1) million and $13.5 million for the three months ended June 30, 2014 and 2013, respectively, and $0.0 million and $34.0 million for the six months ended June 30, 2014 and 2013, respectively.

On April 10, 2014, the Company entered into a joint venture with an unrelated third party to acquire a parcel of land located at 501 K Street in Washington, DC. The Company anticipates the land parcel will accommodate an approximate 520,000 square foot Class A office property to be developed in the future. The joint venture partner contributed the land for a 50% interest in the joint venture and the Company contributed cash of approximately $39.0 million for its 50% interest. Under the joint venture agreement, the partner will be entitled to up to two additional payments from the venture based on increases in total square footage of the project above 520,000 square feet and achieving certain project returns at stabilization.

On April 30, 2014, the Company s partner in its Annapolis Junction joint venture contributed a parcel of land and improvements and the Company contributed cash of approximately $5.4 million to the joint venture. The Company has a 50% interest in this joint venture. The joint venture has commenced construction of Annapolis Junction Building Eight, which when completed will consist of a Class A office property with approximately 125,000 net rentable square feet located in Annapolis, Maryland. In addition, on June 23, 2014, the joint venture obtained construction financing collateralized by the development project totaling $26.0 million. The construction financing bears interest at a variable rate equal to LIBOR plus 1.50% per annum and matures on June 23, 2017, with two, one-year extension options, subject to certain conditions.

5. Unsecured Exchangeable Senior Notes

On February 18, 2014, the Company s Operating Partnership repaid at maturity the $747.5 million aggregate principal amount of its 3.625% exchangeable senior notes due 2014 plus accrued and unpaid interest thereon.

6. Commitments and Contingencies

General

In the normal course of business, the Company guarantees its performance of services or indemnifies third parties against its negligence. In addition, in the normal course of business, the Company guarantees to certain tenants the obligations of its subsidiaries for the payment of tenant improvement allowances and brokerage commissions in connection with their leases and limited costs arising from delays in delivery of their premises.

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

Certain of the Company s joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures. With limited exception, under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners (See also Note 7). Under certain of the Company s joint venture agreements, if certain return thresholds are achieved the partners will be entitled to an additional promoted interest or payments.

In connection with the assumption of 767 Fifth Avenue s (the General Motors Building) secured loan by the Company s consolidated joint venture, 767 Venture, LLC, the Company guaranteed the consolidated joint venture s obligation to fund various escrows, including tenant improvements, taxes and insurance in lieu of cash deposits. As of June 30, 2014, the maximum funding obligation under the guarantee was approximately $22.4 million. The Company earns a fee from the joint venture for providing the guarantee and has an agreement with the outside partners to reimburse the joint venture for their share of any payments made under the guarantee.

In connection with the mortgage financing collateralized by the Company s John Hancock Tower property located in Boston, Massachusetts, the Company has agreed to guarantee approximately $30.5 million related to its obligations to provide funds for certain tenant re-leasing costs. The mortgage financing matures on January 6, 2017.

From time to time, the Company (or the applicable joint venture) has also agreed to guarantee portions of the principal, interest or other amounts in connection with other unconsolidated joint venture borrowings. In addition to the financial guarantees referenced above, the Company has agreed to customary environmental indemnifications and nonrecourse carve-outs (e.g., guarantees against fraud, misrepresentation and bankruptcy) on certain of its unconsolidated joint venture loans.

In 2009, the Company filed a general unsecured creditor s claim against Lehman Brothers, Inc. for $45.3 million related to its rejection of a lease at 399 Park Avenue in New York City. On January 10, 2014, the trustee for the liquidation of the business of Lehman Brothers allowed the Company s claim in the amount of $45.2 million. Recently, claims of similar priority were quoted privately within a range of $0.40 to $0.41 per $1.00 of claim. The Company was notified on July 30, 2014 that the bankruptcy court approved the trustee s motion to make an initial interim distribution to holders of claims as of July 15, 2014. The Company will continue to evaluate whether to attempt to sell the claim or wait until the trustee distributes proceeds from the Lehman estate.

Given the inherent uncertainties in bankruptcy proceedings, there can be no assurance as to the timing or amount of potential proceeds, if any, that the Company may ultimately realize on the claim, whether by sale to a third party or by one or more distributions from the trustee. Accordingly, the Company has not recorded any estimated recoveries associated with this gain contingency within its consolidated financial statements at June 30, 2014.

Insurance

The Company carries insurance coverage on its properties of types and in amounts and with deductibles that it believes are in line with coverage customarily obtained by owners of similar properties. In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Federal Terrorism Risk Insurance Act (as amended, TRIA) was enacted in November 2002 to require regulated insurers to make available coverage for certified acts of terrorism (as defined by the statute). The expiration date of TRIA was extended to December 31, 2014 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) and the Company can provide no assurance that it will be extended further. Currently, the Company s property insurance program per occurrence limits are $1.0 billion for its portfolio insurance program, including coverage for acts of terrorism other than nuclear, biological, chemical or radiological terrorism (Terrorism Coverage). The Company also carries $250 million of Terrorism Coverage for 601 Lexington Avenue, New York, New York (601 Lexington Avenue) in excess of the $1.0 billion of coverage in the Company s property insurance program. Certain properties, including the General Motors Building located at 767 Fifth Avenue in New York, New York (767 Fifth Avenue), are currently insured in separate insurance programs. The property insurance program per occurrence limits for 767 Fifth Avenue are $1.625 billion, including Terrorism Coverage. Through June 9, 2014, $1.375 billion of the Terrorism Coverage for 767 Fifth Avenue in excess of $250 million was provided by NYXP, LLC (NYXP), as a direct insurer. After June 9, 2014, all of the Terrorism Coverage for 767 Fifth Avenue has been provided by third party insurers. The Company also currently carries nuclear, biological, chemical and radiological terrorism insurance coverage for acts of terrorism certified under TRIA (NBCR Coverage), which is provided by IXP as a direct insurer, for the properties in our portfolio, including 767 Fifth Avenue, but excluding certain other properties owned in joint ventures with third parties or which the Company manages. The per occurrence limit for NBCR Coverage is $1.0 billion. Under TRIA, after the payment of the required deductible and coinsurance, the NBCR Coverage provided by IXP and the Terrorism Coverage provided by NYXP are backstopped by the Federal Government if the aggregate industry insured losses resulting from a certified act of terrorism exceed a program trigger. The program trigger is $100.0 million and the coinsurance is 15%. Under TRIPRA, if the Federal Government pays out for a loss under TRIA, it is mandatory that the Federal Government recoup the full amount of the loss from insurers offering TRIA coverage after the payment of the loss pursuant to a formula in TRIPRA. The Company may elect to terminate the NBCR Coverage if the Federal Government seeks recoupment for losses paid under TRIA, if there is a change in its portfolio or for any other reason. In the event TRIPRA is not extended beyond December 31, 2014, (i) the Company s $1.0 billion portfolio property insurance program and the $250 million of additional Terrorism Coverage for 601 Lexington Avenue will continue to provide Terrorism Coverage through the expiration of the program on March 1, 2015, (ii) the Company will evaluate alternative approaches to secure coverage for acts of terrorism thereby potentially increasing our overall cost of insurance, (iii) if such insurance is not available at commercially reasonable rates with limits equal to our current coverage or at all, the Company may not continue to have full occurrence limit coverage for acts of terrorism, (iv) the Company may not satisfy the insurance requirements under existing or future debt financings secured by individual properties, (v) the Company may not be able to obtain future debt financings secured by individual properties and (vi) the Company may cancel the insurance policies issued by IXP for the NBCR Coverage. The Company intends to continue to monitor the scope, nature and cost of available terrorism insurance and maintain terrorism insurance in amounts and on terms that are commercially reasonable.

The Company also currently carries earthquake insurance on its properties located in areas known to be subject to earthquakes in an amount and subject to self-insurance that the Company believes is commercially reasonable. In addition, this insurance is subject to a deductible in the amount of 5% of the value of the affected property. Specifically, the Company currently carries earthquake insurance which covers its San Francisco region

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(excluding 535 Mission Street and Salesforce Tower (formerly Transbay Tower)) with a $120 million per occurrence limit and a $120 million annual aggregate limit, $20 million of which is provided by IXP, as a direct insurer. The builders risk policy maintained for the development of 535 Mission Street in San Francisco includes a $15 million per occurrence and annual aggregate limit of earthquake coverage. In addition, the builders risk policy maintained for the development of Salesforce Tower (formerly Transbay Tower) in San Francisco includes a $15 million per occurrence and annual aggregate limit of earthquake coverage (on July 28, 2014 this was increased to $60 million). The amount of the Company s earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, the amount of earthquake coverage could impact the Company s ability to finance properties subject to earthquake risk. The Company may discontinue earthquake insurance or change the structure of its earthquake insurance program on some or all of its properties in the future if the premiums exceed the Company s estimation of the value of the coverage.

IXP, a captive insurance company which is a wholly-owned subsidiary of the Company, acts as a direct insurer with respect to a portion of the Company s earthquake insurance coverage for its Greater San Francisco properties and the Company s NBCR Coverage. NYXP, a captive insurance company which is a wholly-owned subsidiary of the Company, acted as a direct insurer with respect to a portion of the Company s Terrorism Coverage for 767 Fifth Avenue through June 9, 2014. NYXP only insured losses which exceeded the program trigger under TRIA and NYXP reinsured with a third-party insurance company any coinsurance payable under TRIA. Insofar as the Company owns IXP and NYXP, it is responsible for their liquidity and capital resources, and the accounts of IXP and NYXP are part of the Company s consolidated financial statements. In particular, if a loss occurs which is covered by the Company s NBCR Coverage but is less than the applicable program trigger under TRIA, IXP would be responsible for the full amount of the loss without any backstop by the Federal Government. IXP and NYXP would also be responsible for any recoupment charges by the Federal Government in the event losses are paid out and their insurance policies are maintained after the payout by the Federal Government. If the Company experiences a loss and IXP or NYXP are required to pay under their insurance policies, the Company would ultimately record the loss to the extent of the required payment. Therefore, insurance coverage provided by IXP and NYXP should not be considered as the equivalent of third-party insurance, but rather as a modified form of self-insurance. In addition, the Operating Partnership has issued a guarantee to cover liabilities of IXP in the amount of $20.0 million.

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

The Company continues to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism and California earthquake risk in particular, but the Company cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. There are other types of losses, such as from wars, 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.

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7. Noncontrolling Interests

Noncontrolling interests relate to the interests in the Operating Partnership not owned by the Company and interests in consolidated property partnerships not wholly-owned by the Company. As of June 30, 2014, the noncontrolling interests in the Operating Partnership consisted of 16,458,014 OP Units, 1,511,796 LTIP Units, 394,590 2012 OPP Units, 314,974 2013 MYLTIP Units, 483,555 2014 MYLTIP Units and 360,126 Series Four Preferred Units (none of which are convertible into OP Units) held by parties other than the Company.

Noncontrolling Interest Redeemable Preferred Units of the Operating Partnership

On March 11, 2014, the Company notified the holders of the outstanding Series Two Preferred Units that it had elected to redeem all of such Series Two Preferred Units on May 12, 2014. As a result of the Company s election to redeem the units, all of the holders of the Series Two Preferred Units elected to convert such units into 1.312336 OP Units, or an aggregate of 874,168 OP Units, on or before May 12, 2014. As of May 12, 2014, the holders of all remaining 666,116 Series Two Preferred Units converted such units into an aggregate of 874,168 OP Units. The Series Two Preferred Units bore a preferred distribution equal to the greater of (1) the distribution which would have been paid in respect of the Series Two Preferred Unit had such Series Two Preferred Unit been converted into an OP Unit (including both regular and special distributions) or (2) 6.00% per annum on a liquidation preference of $50.00 per u