

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

FRANKLIN STREET PROPERTIES CORP /MA/  
Form 10-K  
February 23, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-32470

FRANKLIN STREET PROPERTIES CORP.

-----  
(Exact name of registrant as specified in its charter)

Maryland

04-3578653

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

401 Edgewater Place, Suite 200, Wakefield, Massachusetts

01880-6210

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (781) 557-1300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of exchange on which registered:

-----  
Common Stock, \$.0001 par value per share

-----  
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer,  
as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports  
pursuant to Section 13 or 15(d) of the Act. Yes  No .

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  No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item  
405 of Regulation S-K (229.405 of this chapter) is not contained herein, and  
will not be contained, to the best of registrant's knowledge, in definitive

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. As of June 30, 2006 the aggregate market value was \$1,174,700,886.

There were 70,766,305 shares of Common Stock outstanding as of February 21, 2007.

Documents incorporated by reference: The registrant intends to file a definitive proxy statement pursuant to Regulation 14A, promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the registrant's Annual Meeting of Stockholders to be held on May 11, 2007 (the "Proxy Statement"). The information required in response to Items 10 - 14 of Part III of this Form 10-K, other than that contained in Part I under the caption, "Directors and Executive Officers of FSP Corp.," is hereby incorporated by reference to such proxy statement.

### TABLE OF CONTENTS

FRANKLIN STREET PROPERTIES CORP.....	1
PART I.....	1
Item 1. Business.....	1
Item 1A. Risk Factors.....	4
Item 1B. Unresolved Staff Comments.....	10
Item 2. Properties.....	10
Item 3. Legal Proceedings.....	13
Item 4. Submission of Matters to a Vote of Security Holders.....	13
Directors and Executive Officers of FSP Corp.....	13
PART II.....	16
Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.....	16
Item 6. Selected Financial Data.....	18
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	19
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	37
Item 8. Financial Statements and Supplementary Data.....	38
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	38
Item 9A. Controls and Procedures.....	38
Item 9B. Other information.....	39
PART III.....	40
Item 10. Directors, Executive Officers and Corporate Governance.....	40
Item 11. Executive Compensation.....	40
Item 12. Security Ownership of Certain Beneficial Owners and	

# Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Management and Related Stockholder Matters.....	40
Item 13. Certain Relationships and Related Transactions, and Director Independence.....	40
Item 14. Principal Accounting Fees and Services.....	40
PART IV.....	41
Item 15. Exhibits, Financial Statement Schedules.....	41
SIGNATURES .....	42

## PART I

### Item 1. Business

#### History

Our company, Franklin Street Properties Corp., which we will refer to as FSP Corp. or the Company, is a Maryland corporation that operates in a manner intended to qualify as a real estate investment trust, or REIT, for federal income tax purposes. FSP Corp. is the successor to Franklin Street Partners Limited Partnership, or the FSP Partnership, which was originally formed as a Massachusetts general partnership in January 1997 as the successor to a Massachusetts general partnership that was formed in 1981. On January 1, 2002, the FSP Partnership converted into FSP Corp., which we refer to as the conversion. As a result of this conversion, the FSP Partnership ceased to exist and we succeeded to the business of the FSP Partnership. In the conversion, each unit of both general and limited partnership interests in the FSP Partnership was converted into one share of our common stock. As a result of the conversion, we hold, directly and indirectly, 100% of the interest in three former subsidiaries of the FSP Partnership: FSP Investments LLC, FSP Property Management LLC, and FSP Holdings LLC. We operate some of our business through these subsidiaries.

On June 1, 2003, we acquired 13 real estate investment trusts by merger. In these mergers, we issued 25,000,091 shares of our common stock to holders of preferred stock in these REITs. As a result of these mergers, we now hold all of the assets previously held by these REITs.

On April 30, 2005, we acquired four real estate investment trusts by merger, which we refer to as the 2005 Target REITs. In these mergers we issued 10,894,994 shares of common stock to holders of preferred stock in the 2005 Target REITs. As a result of these mergers, we now hold all of the assets previously held by the 2005 Target REITs.

On June 2, 2005, we began trading our common stock on the American Stock Exchange under the symbol "FSP".

On April 30, 2006, we acquired five real estate investment trusts by merger, which we will refer to as the 2006 Target REITs. In these mergers we issued 10,971,697 shares of common stock to holders of preferred stock in the 2006 Target REITs. As a result of these mergers, we now hold all of the assets previously held by the 2006 Target REITs.

#### Our Business

We operate in two business segments and have two principal sources of revenue:

- o Real estate operations, including real estate leasing, interim acquisition financing, development and asset/property management, which generate rental income, loan origination fees and interest

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

- income, development fees and management fees, respectively.
- o Investment banking/investment services, which generate brokerage commissions and other fees related to the organization of single-purpose entities that own real estate and the private placement of equity in those entities. We refer to these entities which are organized as corporations and operated in a manner intended to qualify as real estate investment trusts, as Sponsored REITs. Previously these entities were called Sponsored Entities and were organized as partnerships.

We also pursue on a selective basis the sale of our properties to take advantage of the value creation and demand for our properties, or for geographic or property specific reasons.

See Note 3 to our consolidated financial statements for additional information regarding our business segments.

1

### Real Estate

We own and operate a portfolio of real estate consisting of 29 properties as of December 31, 2006, which includes 28 office buildings and one industrial use property. In addition, we own one office building that was held for sale as of December 31, 2006, and was sold on January 31, 2007. We derive rental revenue from income paid to us by tenants of these properties. From time-to-time we dispose of properties generating gains or losses in an ongoing effort to improve and upgrade our portfolio. See Item 2 of this Annual Report on Form 10-K for more information about our properties.

FSP Corp. typically makes a loan to each Sponsored REIT which is secured by a mortgage on the borrower's real estate. The loans produce revenue in the form of interest and loan origination fees payable to FSP Corp. These loans typically are repaid out of the proceeds of the borrower's equity offering.

We also provide development services, asset management services, property management services and/or property accounting services to our portfolio and certain of our Sponsored REITs through our subsidiary FSP Property Management LLC. FSP Corp. recognizes revenue for its receipt of fee income from Sponsored REITs that have not been acquired by us. FSP Property Management does not receive any rental income.

### Investment Banking/Investment Services

Through our subsidiary FSP Investments LLC, which acts as a real estate investment banking firm and broker/dealer, we organize Sponsored REITs, and sell equity in them through private placements exempt from registration under the Securities Act of 1933. These single-purpose entities each typically acquire a single real estate asset. FSP Investments raises capital required to equitize these entities through best efforts offerings to "accredited investors" within the meaning of Regulation D of the Securities Act. We retain 100% of the common stock interest in the Sponsored REIT, though there is virtually no economic benefit or risk subsequent to the completion of the syndication. Since 1997, FSP Investments has sponsored 46 entities, 13 of which were Sponsored Entities, and 33 of which were Sponsored REITs.

FSP Investments derives revenue from syndication and other transaction fees received in connection with the sale of preferred stock in the Sponsored REITs and from fees paid by the Sponsored REITs for its services in identifying, inspecting and negotiating to purchase real properties on their behalf. FSP

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Investments is a registered broker/dealer with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. We have made an election to treat FSP Investments as a "taxable REIT subsidiary" for federal income tax purposes.

### Investment Objectives

Our investment objectives are to increase the cash available for distribution in the form of dividends to our stockholders and to create shareholder value by increasing revenue from rental income, any net gains from sales of properties and investment banking services. We expect that, through FSP Investments, we will continue to organize and cause the offering of Sponsored REITs in the future and that we will continue to derive investment banking/investment services income, from such activities as well as real estate revenue from loan origination fees, development fees and interest. We may also acquire additional real properties by direct cash purchase or by acquisition of Sponsored REITs, though we have no obligation to acquire or offer to acquire any Sponsored REIT in the future. In addition, we may invest in real estate by purchasing shares of preferred stock offered in the syndications of our Sponsored REITs.

From time to time, as market conditions warrant, we may sell properties owned by us. In 2006 we sold six properties and reached an agreement to sell another property. In 2005 we sold six properties and reached an agreement to sell another property. In 2004 no properties were sold. When we sell a property, we either distribute some or all of the sale proceeds to our stockholders as a distribution or retain some or all of such proceeds for investment in real properties or other corporate activities.

2

We may acquire, and have acquired, real properties in any geographic area of the United States and of any property type. We own 30 properties that are located in 15 different states. Of the 30 properties, 29 are office buildings (one of which was held for sale and was sold on January 31, 2007), and one is an industrial property. See Item 2 of this Annual Report on Form 10-K.

We rely on the following principles in selecting real properties for acquisition by a Sponsored REIT or FSP Corp. and managing them after acquisition:

- o we seek to buy or develop investment properties at a price which produces value for investors and avoid overpaying for real estate merely to outbid competitors;
- o we seek to buy or develop properties in excellent locations with substantial infrastructure in place around them and avoid investing in locations where the future construction of such infrastructure is speculative;
- o we seek to buy or develop properties that are well-constructed and designed to appeal to a broad base of users and avoid properties where quality has been sacrificed to cost savings in construction or which appeal only to a narrow group of users;
- o we aggressively manage, maintain and upgrade our properties and refuse to neglect or undercapitalize management, maintenance and capital improvement programs; and
- o we believe that we have the ability to hold properties through down cycles and avoid leveraging properties and placing them at risk of foreclosure; as of February 21, 2007, none of our 29 properties was subject to mortgage debt, though we note that two Sponsored REITs organized by us are subject to mortgage debt.

Line of Credit

We currently have an unsecured revolving line of credit with a group of banks that provides for borrowings of up to \$150,000,000. We have drawn on this line of credit, and intend to draw on this line of credit in the future, to obtain funds primarily for the purpose of making interim mortgage loans to Sponsored REITs or for interim financing of properties we acquire directly for our portfolio. We typically cause mortgage loans to Sponsored REITs to be secured by a first mortgage against the real property owned by the Sponsored REIT. We make these loans to enable a Sponsored REIT to acquire real property prior to the consummation of the offering of its equity interests, and the loan is repaid out of the offering proceeds. We have no restriction on the percentage of our assets that may be invested in any single mortgage.

Competition

With respect to our real estate investments, we face competition in each of the markets where the properties are located. In order to establish, maintain or increase the rental revenues for a property, it must be competitive on location, cost and amenities with other buildings of similar use. Some of our competitors may have significantly more resources than we do and may be able to offer more attractive rental rates or services. On the other hand, some of our competitors may be smaller or have less fixed overhead costs, less cash or other resources that make them willing or able to accept lower rents in order to maintain a certain occupancy level. In markets where there is not currently significant existing property competition, our competitors may decide to enter the market and build new buildings to compete with our existing projects or those in a development stage. Our competition is not only with other developers, but also with property users who choose to own their building or a portion of the building in the form of an office condominium, and larger market forces (including changes in interest rates and tax treatment) and individual decisions beyond our control may affect our ability to compete with those forms of ownership.

With respect to our investment banking and investment services business, we face competition for investment dollars from every other kind of investment, including stocks, bonds, mutual funds, exchange traded funds and other real-estate related investments, including other REITs. Some of our competitors have significantly more resources than we do and are able to advertise their investment products. Because the offerings of the Sponsored REITs are made pursuant to an exemption from registration under the Securities Act, FSP Investments may not advertise the Sponsored REITs or otherwise engage in any general solicitation of investors to purchase interests in the Sponsored REITs, which may affect our ability to compete for investment dollars. In addition, because we offer the Sponsored REITs only to accredited investors, our pool of potential investment clients is smaller than that available to some other financial institutions.

Employees

We had 37 full time and 1 part-time employees as of December 31, 2006.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, and, in accordance therewith, we file reports and other information with the Securities and Exchange Commission (SEC). The reports and

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

other information we file can be inspected and copied at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Such reports and other information may also be obtained from the web site that the SEC maintains at <http://www.sec.gov>. Further information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

We make available, free of charge through our website [www.franklinstreetproperties.com](http://www.franklinstreetproperties.com) our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the SEC.

Reports and other information concerning us may also be obtained electronically through a variety of databases, including, among others, the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) program, Knight-Ridder Information Inc., Federal Filing/Dow Jones and Lexis/Nexis.

We will voluntarily provide paper copies of our filings and code of ethics upon written request received at the address on the cover of this Annual Report on Form 10-K, free of charge.

### Item 1A. Risk Factors

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time-to-time.

If we are not able to collect sufficient rents from each of our owned real properties, we may suffer significant operating losses or a reduction in cash available for future dividends.

A substantial portion of our revenues are generated by the rental income of our real properties. If our properties do not provide us with a steady rental income, our revenues will decrease and may cause us to incur operating losses in the future.

We may not be able to find properties that meet our criteria for purchase.

Growth in our investment banking/investment services business and our portfolio of real estate is dependent on the ability of our acquisition executives to find properties for sale and/or development which meet our investment criteria. To the extent they fail to find such properties, we will be unable to syndicate offerings of Sponsored REITs to investors, and this segment of our business could have lower revenue, and we would be unable to increase the size of our portfolio of real estate, which would reduce the cash available for distribution to our stockholders.

If we are unable to fully syndicate a Sponsored REIT, we may be required to keep a balance outstanding on our line of credit or use our cash balance to repay our line of credit, which may reduce cash available for distribution to our stockholders.

We typically draw on our line of credit to make an interim mortgage loan to a Sponsored REIT, so that it can acquire real property prior to the consummation of the offering of its equity interests; this interim loan is typically secured by a first mortgage against the real property acquired by the Sponsored REIT. Once the offering has been completed, the Sponsored REIT typically repays the loan out of the offering proceeds. If we are unable to fully syndicate a Sponsored REIT, the Sponsored REIT could be unable to fully repay the loan, and we would have to satisfy our obligation under our line of

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

credit through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders.

4

A default under our line of credit could have a material adverse effect on the cash available for distribution to our stockholders and would limit our growth.

We typically draw on our line of credit to make an interim mortgage loan to a Sponsored REIT, so that the Sponsored REIT can acquire real property prior to the consummation of the offering of such Sponsored REIT's equity interests. Once the offering has been completed, the Sponsored REIT typically repays the loan out of the offering proceeds. We also may use the line of credit to purchase properties directly for our real estate portfolio. A default under our line of credit could result in difficulty financing growth in both the investment banking/investment services and real estate segments of our business. It could also result in a reduction in the cash available for distribution to our stockholders because revenue for our investment banking/investment services segment is directly related to the amount of equity raised by Sponsored REITs which we syndicate. In addition, a significant part of our growth strategy is to acquire additional real properties by cash purchase or by acquisition of Sponsored REITs, and the inability to utilize the line of credit would make it substantially more difficult to pursue acquisitions by either method. To the extent we have a balance outstanding on the line of credit on the date of its default, we would have to satisfy our obligation through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders.

We face risks in continuing to attract investors for Sponsored REITs.

Our investment banking/investment services business continues to depend upon its ability to attract purchasers of equity interests in Sponsored REITs. Our success in this area will depend on the propensity and ability of investors who have previously invested in Sponsored REITs to continue to invest in future Sponsored REITs and on our ability to expand the investor pool for the Sponsored REITs by identifying new potential investors. Moreover, our investment banking/investment services business may be affected to the extent existing Sponsored REITs incur losses or have operating results that fail to meet investors' expectations.

We are dependent on key personnel.

We depend on the efforts of George J. Carter, our President and Chief Executive Officer and a Director; Barbara J. Fournier, our Chief Operating Officer, Treasurer, Secretary, a Vice President and a Director; John G. Demeritt, our Chief Financial Officer; Janet Prier Notopoulos, a Vice President and a Director; R. Scott MacPhee, an Executive Vice President; and William W. Gribbell, an Executive Vice President. If any of our executive officers were to resign, our operations could be adversely affected. We do not have employment agreements with any of our executive officers.

Our level of dividends may fluctuate.

Because our investment banking/investment services business is transactional in nature and real estate occupancy levels and rental rates can fluctuate, there is no predictable recurring level of revenue from such activities. As a result of this, the amount of cash available for distribution may fluctuate, which may result in us not being able to maintain or grow dividend levels in the future.



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

We face risks from tenant defaults or bankruptcies.

If any of our tenants defaults on its lease, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. In addition, at any time, a tenant of one of our properties may seek the protection of bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in cash available for distribution to our stockholders.

5

The real properties held by us may significantly decrease in value.

As of February 21, 2007, we owned 29 properties. Some or all of these properties may decline in value. To the extent our real properties decline in value, our stockholders could lose some or all the value of their investments. The value of our common stock may be adversely affected if the real properties held by us decline in value since these real properties represent the majority of the tangible assets held by us. Moreover, if we are forced to sell or lease the real property held by us below its initial purchase price or its carrying costs or if we are forced to lease real property at below market rates because of the condition of the property, our results of operations would be adversely affected and such negative results of operations may result in lower dividends being paid to holders of our common stock.

New acquisitions may fail to perform as expected.

We may acquire new properties, whether by direct FSP Corp. purchase with cash or our line of credit, by acquisition of Sponsored REITs or other entities by cash or through the issuance of shares of our stock or by investment in a Sponsored REIT. We acquired the four 2005 Target REITs and the properties they own on April 30, 2005, a property in Colorado in February 2005, another property in Indiana in July 2005 and another property in Texas in February 2006. We also acquired the five 2006 Target REITs and the properties they own on April 30, 2006, a property in Georgia in June 2006 and a property in Colorado in December 2006. Newly acquired properties may fail to perform as expected, in which case, our results of operations could be adversely affected.

We face risks in owning, developing and operating real property.

An investment in us is subject to the risks incident to the ownership, development and operation of real estate-related assets. These risks include the fact that real estate investments are generally illiquid, which may affect our ability to vary our portfolio in response to changes in economic and other conditions, as well as the risks normally associated with:

- o changes in general and local economic conditions;
- o the supply or demand for particular types of properties in particular markets;
- o changes in market rental rates;
- o the impact of environmental protection laws; and
- o changes in tax, real estate and zoning laws.

Certain significant costs, such as real estate taxes, utilities, insurance and maintenance costs, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

We may encounter significant delays in reletting vacant space, resulting in losses of income.

When leases expire, we will incur expenses and may not be able to re-lease the space on the same terms. Certain leases provide tenants the right to terminate early if they pay a fee. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce distributions to our stockholders. Typical lease terms range from five to ten years, so up to approximately 20% of our rental revenue from commercial properties could be expected to expire each year.

We face risks from geographic concentration.

The properties in our portfolio as of December 31, 2006, by aggregate square footage, are distributed geographically as follows: Southwest - 27%, Northeast - 12%, Midwest - 19%, West - 24% and Southeast - 18%. However, within certain of those regions, we hold a larger concentration of our properties in Dallas, Texas - 18%, Greater Denver, Colorado - 13%, Atlanta, Georgia - 11% and Houston, Texas - 8%. We are likely to face risks to the extent that any of these areas in which we hold a larger concentration of our properties suffer deteriorating economic conditions.

6

We compete with national, regional and local real estate operators and developers, which could adversely affect our cash flow.

Competition exists in every market in which our properties are currently located and in every market in which properties we may acquire in the future will be located. We compete with, among others, national, regional and numerous local real estate operators and developers. Such competition may adversely affect the percentage of leased space and the rental revenues of our properties, which could adversely affect our cash flow from operations and our ability to make expected distributions to our stockholders. Some of our competitors may have more resources than we do or other competitive advantages. Competition may be accelerated by any increase in availability of funds for investment in real estate. For example, decreases in interest rates tend to increase the availability of funds and therefore can increase competition. To the extent that our properties continue to operate profitably, this will likely stimulate new development of competing properties. The extent to which we are affected by competition will depend in significant part on local market conditions.

There is limited potential for revenue to increase from an increase in leased space in our properties.

We anticipate that future increases in revenue from our properties will be primarily the result of scheduled rental rate increases or rental rate increases as leases expire. Properties with higher rates of vacancy are generally located in soft economic markets so that it may be difficult to realize increases in revenue when vacant space is re-leased.

We are subject to possible liability relating to environmental matters, and we cannot assure you that we have identified all possible liabilities.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on or in its property. Such laws may impose liability without regard to whether the owner or operator knew of, or caused, the release of such hazardous substances. The presence of hazardous substances on a property may adversely affect the owner's ability to

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

sell such property or to borrow using such property as collateral, and it may cause the owner of the property to incur substantial remediation costs. In addition to claims for cleanup costs, the presence of hazardous substances on a property could result in the owner incurring substantial liabilities as a result of a claim by a private party for personal injury or a claim by an adjacent property owner for property damage.

In addition, we cannot assure you that:

- o future laws, ordinances or regulations will not impose any material environmental liability;
- o the current environmental conditions of our properties will not be affected by the condition of properties in the vicinity of such properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us;
- o tenants will not violate their leases by introducing hazardous or toxic substances into our properties that could expose us to liability under federal or state environmental laws; or
- o environmental conditions, such as the growth of bacteria and toxic mold in heating and ventilation systems or on walls, will not occur at our properties and pose a threat to human health.

We are subject to compliance with the Americans With Disabilities Act and fire and safety regulations, any of which could require us to make significant capital expenditures.

All of our properties are required to comply with the Americans With Disabilities Act (ADA), and the regulations, rules and orders that may be issued thereunder. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to persons with disabilities. Compliance with ADA requirements might require, among other things, removal of access barriers and noncompliance could result in the imposition of fines by the U.S. government or an award of damages to private litigants.

7

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. Compliance with such requirements may require us to make substantial capital expenditures, which expenditures would reduce cash otherwise available for distribution to our stockholders.

We may lose capital investment or anticipated profits if an uninsured event occurs.

We carry, or our tenants carry, comprehensive liability, fire and extended coverage with respect to each of our properties, with policy specification and insured limits customarily carried for similar properties. There are, however, certain types of losses that may be either uninsurable or not economically insurable. Should an uninsured material loss occur, we could lose both capital invested in the property and anticipated profits.

Contingent or unknown liabilities acquired in mergers or similar transactions could require us to make substantial payments.

The properties which we acquired in mergers were acquired subject to liabilities and without any recourse with respect to liabilities, whether known or unknown. As a result, if liabilities were asserted against us based upon any

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

of these properties, we might have to pay substantial sums to settle them, which could adversely affect our results of operations and financial condition and our cash flow and ability to make distributions to our stockholders. Unknown liabilities with respect to properties acquired might include:

- o liabilities for clean-up or remediation of environmental conditions;
- o claims of tenants, vendors or other persons dealing with the former owners of the properties; and
- o liabilities incurred in the ordinary course of business.

Our employee retention plan may prevent changes in control.

During February 2006, our Board of Directors approved a change in control plan, which included a form of retention agreement and discretionary payment plan. Payments under the discretionary plan are capped at 1% of the market capitalization of FSP Corp. as reduced by the amount paid under the retention plan. The costs associated with these two components of the plan may have the effect of discouraging a third party from making an acquisition proposal for us and may thereby inhibit a change in control under circumstances that could otherwise give the holders of our common stock the opportunity to realize a greater premium over the then-prevailing market prices.

The price of our common stock may vary.

The market prices for our common stock may fluctuate with changes in market and economic conditions, including the market perception of REITs in general, and changes in the financial condition of our securities. Such fluctuations may depress the market price of our common stock independent of the financial performance of FSP Corp. The market conditions for REIT stocks generally could affect the market price of our common stock.

We would incur adverse tax consequences if we failed to qualify as a REIT.

The provisions of the tax code governing the taxation of real estate investment trusts are very technical and complex, and although we expect that we will be organized and will operate in a manner that will enable us to meet such requirements, no assurance can be given that we will always succeed in doing so. In addition, as a result of our acquisition of the target REITs pursuant to the mergers, we might no longer qualify as a real estate investment trust. We could lose our ability to so qualify for a variety of reasons relating to the nature of the assets acquired from the target REITs, the identity of the stockholders of the target REITs who become our stockholders or the failure of one or more of the target REITs to have previously qualified as a real estate investment trust. Moreover, you should note that if one or more of the REITs that we acquired in April 2006, April 2005 or June 2003 did not qualify as a real estate investment trust immediately prior to the consummation of its acquisition, we could be disqualified as a REIT as a result of such acquisition.

If in any taxable year we do not qualify as a real estate investment trust, we would be taxed as a corporation and distributions to our stockholders would not be deductible by us in computing our taxable income. In addition, if we were to fail to qualify as a real estate investment trust, we could be disqualified from treatment as a real estate investment trust in the year in

which such failure occurred and for the next four taxable years and, consequently, we would be taxed as a regular corporation during such years. Failure to qualify for even one taxable year could result in a significant reduction of our cash available for distribution to our stockholders or could

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

require us to incur indebtedness or liquidate investments in order to generate sufficient funds to pay the resulting federal income tax liabilities.

Provisions in our organizational documents may prevent changes in control.

Our Articles of Incorporation and Bylaws contain provisions, described below, which may have the effect of discouraging a third party from making an acquisition proposal for us and may thereby inhibit a change of control under circumstances that could otherwise give the holders of our common stock the opportunity to realize a premium over the then-prevailing market prices.

**Ownership Limits.** In order for us to maintain our qualification as a real estate investment trust, the holders of our common stock may be limited to owning, either directly or under applicable attribution rules of the Internal Revenue Code, no more than 9.8% of the lesser of the value or the number of our equity shares, and no holder of common stock may acquire or transfer shares that would result in our shares of common stock being beneficially owned by fewer than 100 persons. Such ownership limit may have the effect of preventing an acquisition of control of us without the approval of our board of directors. Our Articles of Incorporation give our board of directors the right to refuse to give effect to the acquisition or transfer of shares by a stockholder in violation of these provisions.

**Staggered Board.** Our board of directors is divided into three classes. The terms of these classes will expire in 2007, 2008 and 2009, respectively. Directors of each class are elected for a three-year term upon the expiration of the initial term of each class. The staggered terms for directors may affect our stockholders' ability to effect a change in control even if a change in control were in the stockholders' best interests.

**Preferred Stock.** Our Articles of Incorporation authorize our board of directors to issue up to 20,000,000 shares of preferred stock, par value \$.0001 per share, and to establish the preferences and rights of any such shares issued. The issuance of preferred stock could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

**Increase of Authorized Stock.** Our board of directors, without any vote or consent of the stockholders, may increase the number of authorized shares of any class or series of stock or the aggregate number of authorized shares we have authority to issue. The ability to increase the number of authorized shares and issue such shares could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

**Amendment of Bylaws.** Our board of directors has the sole power to amend our Bylaws. This power could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interests.

**Stockholder Meetings.** Our Bylaws require advance notice for stockholder proposals to be considered at annual meetings of stockholders and for stockholder nominations for election of directors at special meetings of stockholders. Our Bylaws also provide that stockholders entitled to cast more than 50% of all the votes entitled to be cast at a meeting must join in a request by stockholders to call a special meeting of stockholders. These provisions could have the effect of delaying or preventing a change in control even if a change in control were in the best interests of our stockholders.

**Supermajority Votes Required.** Our Articles of Incorporation require the affirmative vote of the holders of no less than 80% of the shares of capital stock outstanding and entitled to vote in order (i) to amend the provisions of our Articles of Incorporation relating to the classification of directors, removal of directors, limitation of liability of officers and directors or

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

indemnification of officers and directors or (ii) to amend our Articles of Incorporation to impose cumulative voting in the election of directors. These provisions could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

9

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

Set forth below is information regarding our properties as of December 31, 2006:

Property Location -----	Date of Purchase or Merged Entity Date of Purchase -----	Approx. Square Feet -----	Percent Leased as of 12/31/06 -----	Approx. Number of Tenants -----	Major Tenants -----
Office -----					
1515 Mockingbird Lane Charlotte, NC 28209	7/1/97	109,550	88%	72	Primary
678-686 Hillview Drive Milpitas, CA 95035	3/9/99	36,288	100%	1	Headway Technolo
600 Forest Point Circle Charlotte, NC 28273	7/8/99	62,212	87%	2	American Cellco P d/b/a Ve
18000 W. Nine Mile Rd. Southfield, MI 48075	9/30/99	215,306	91%	6	Int'l Bu
11211 Taylor Draper Lane Austin, TX 78759	12/29/99	68,533	90%	9	TriActiv CACI Tec State Fa Rodrigue
10 Lyberty Way Westford, MA 01886	5/23/00	104,711	0%	0	Vacant
17030 Goldentop Road San Diego, CA 92127	9/22/00	141,405	100%	1	Northrop
4820 & 4920 Centennial Blvd. Colorado Springs, CO 80919	9/28/00	110,730	82%	3	Comcast Dalsa Co AMI Semi
14151 Park Meadow Drive Chantilly, VA 20151	3/15/01	134,850	100%	1	CACI, In

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

1370 & 1390 Timberlake Manor Parkway, Chesterfield, MO 63017	5/24/01	232,722	95%	4	RGA Rein AMDOCS,
---	---------	---------	-----	---	---------------------

10

Property Location -----	Date of Purchase or Merged Entity Date of Purchase -----	Approx. Square Feet -----	Percent Leased as of 12/31/06 -----	Approx. Number of Tenants -----	Major Te -----
501 & 505 South 336th Street Federal Way, WA 98003	9/14/01	117,227	0%	0	Vacant
50 Northwest Point Rd. Elk Grove Village, IL 60005	12/5/01	176,848	100%	1	Citicorp
1350 Timberlake Manor Parkway Chesterfield, MO 63017	3/4/02	116,312	95%	7	RGA Rein Metropol Wachovia McLeod U
16285 Park Ten Place Houston, TX 77084	6/27/02	155,715	100%	5	Mustang & TMI, I Homes
2730 - 2760 Junction Avenue 408-410 East Plumeria San Jose, CA 95134	8/27/02	145,951	19.1%	1	Techwell
15601 Dallas Parkway Addison, TX 75001	09/30/02	293,787	100%	11	The Stau Behringe Credit S Noble Ro Systemwa
11680 Great Oaks Way Alpharetta, GA 30022	1/30/03	161,366	96%	4	AXIS Spe Hagemeye
1500 & 1600 Greenville Ave. Richardson, TX 75080	3/3/03	298,766	100%	2	Tektroni Argo Dat
6500 & 6560 Greenwood Plaza Englewood, CO 80111	2/24/05	199,077	100%	1	Sybase,
3815-3925 River Crossing Pkwy Indianapolis, IN 46240	7/6/05	205,059	99%	21	Crowe Ch Somerset The Coll
5055 & 5057 Keller Springs Rd. Addison, TX 75001	2/24/06	218,934	96%	23	THC Libe

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

11

Property Location	Date of Purchase or Merged Entity Date of Purchase	Approx. Square Feet	Percent Leased as of 12/31/06	Approx. Number of Tenants	Major Tenants
2740 North Dallas Parkway Plano, TX 75093	12/15/00	116,622	92%	8	Quadrem Bluegree Activant
5505 Blue Lagoon Drive Miami, FL 33126	11/6/03	212,619	100%	1	Burger K
5620, 5640 Cox Road Glen Allen, VA 23060	7/16/03	297,789	100%	1	Capital
1293 Eldridge Parkway Houston, TX 77077	1/16/04	248,399	100%	1	CITGO Pe
380 Interlocken Crescent Broomfield, CO 80021	8/15/03	240,184	64%	7	Cooley G Montgome
3625 Cumberland Boulevard Atlanta, GA 30339	6/22/06	387,267	94%	30	Corporat Century
390 Interlocken Crescent Broomfield, CO 80021	12/21/06	241,516	90%	15	MSI, Vai Leopard
Sub Total Office		5,049,745			
Industrial					
8730 Bollman Place Savage (Jessup), MD 20794	12/14/99	98,745	100%	1	Maines P Foodserv
Sub Total Industrial		98,745			
Grand Total (Assets with Ongoing Operations)		5,148,490			
Asset held for sale					
33 & 37 Villa Road Greenville, SC 29615	3/1/98	144,029	50%	19	Concentr



Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Sub Total Asset Held for Sale 144,029

Grand Total 5,292,519

- (1) Major tenants are tenants who occupy 10% or more of the space in an individual property.
- (2) The Novellus lease at 2730-2760 Junction Avenue and 408-410 East Plumeria in San Jose, CA expired on 12/31/06, leaving a subtenant, Techwell, Inc., occupying only 19% of the space on a direct lease as of January 1, 2007.

12

All of the properties listed above are owned by us. None of our properties are subject to any mortgage loans. We have no material undeveloped or unimproved properties, or proposed programs for material renovation, improvement or development. We believe that our properties are adequately covered by insurance as of December 31, 2006.

Item 3. Legal Proceedings.

From time to time, we are subject to legal proceedings and claims that arise in the ordinary course of our business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not have a material adverse effect on our financial position, cash flows or results of operations.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Directors and Executive Officers of FSP Corp.

The following table sets forth the names, ages and positions of all our directors and executive officers as of February 21, 2007.

Name	Age	Position
George J. Carter (5)	58	President, Chief Executive Officer and Director
Barbara J. Fournier (4)	51	Vice President, Chief Operating Officer, and Director
Barry Silverstein (1) (2) (4)	73	Director
Dennis J. McGillicuddy (1) (2) (3)	65	Director
Georgia Murray (1) (2) (5)	56	Director
John N. Burke (1) (2) (4)	45	Director
John G. Demeritt	46	Chief Financial Officer

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

William W. Gribbell	47	Executive Vice President
R. Scott MacPhee	49	Executive Vice President
Janet Prier Notopoulos (3)	59	Vice President and Director

- 
- (1) Member of the Audit Committee
  - (2) Member of the Compensation Committee
  - (3) Class I Director
  - (4) Class II Director
  - (5) Class III Director

13

George J. Carter, age 58, is President, Chief Executive Officer and a Director of FSP Corp. and is responsible for all aspects of the business of FSP Corp. and its affiliates, with special emphasis on the evaluation, acquisition and structuring of real estate investments. Prior to the conversion, he was President of the general partner of the FSP Partnership (the "General Partner") and was responsible for all aspects of the business of the FSP Partnership and its affiliates. From 1992 through 1996 he was President of Boston Financial Securities, Inc. ("Boston Financial"). Prior to joining Boston Financial, Mr. Carter was owner and developer of Gloucester Dry Dock, a commercial shipyard in Gloucester, Massachusetts. From 1979 to 1988, Mr. Carter served as Managing Director in charge of marketing of First Winthrop Corporation, a national real estate and investment banking firm headquartered in Boston, Massachusetts. Prior to that, he held a number of positions in the brokerage industry including those with Merrill Lynch & Co. and Loeb Rhodes & Co. Mr. Carter is a graduate of the University of Miami (B.S.). Mr. Carter is a NASD General Securities Principal (Series 24) and holds a NASD Series 7 general securities license.

Barbara J. Fournier, age 51, is the Vice President, Chief Operating Officer, Treasurer, Secretary and a Director of FSP Corp. In addition, Ms. Fournier has as her primary responsibility, together with Mr. Carter, the management of all operating business affairs of FSP Corp. and its affiliates. Ms. Fournier was the Principal Financial Officer until March 2005. Prior to the conversion, Ms. Fournier was the Vice President, Chief Operating Officer, Treasurer and Secretary of the General Partner. From 1993 through 1996, she was Director of Operations for the private placement division of Boston Financial. Prior to joining Boston Financial, Ms. Fournier served as Director of Operations for Schuparra Securities Corp. and as the Sales Administrator for Weston Financial Group. From 1979 through 1986, Ms. Fournier worked at First Winthrop Corporation in administrative and management capacities; including Office Manager, Securities Operations and Partnership Administration. Ms. Fournier attended Northeastern University and the New York Institute of Finance. Ms. Fournier is a NASD General Securities Principal (Series 24). She also holds other NASD supervisory licenses including Series 4 and Series 53, and a NASD Series 7 general securities license.

Barry Silverstein, age 73, has been a Director of the Company since May 2002. Mr. Silverstein took his law degree from Yale University in 1957 and subsequently held positions as attorney/officer/director of various privately-held manufacturing companies in Chicago, Illinois. In 1964, he moved to Florida to manage his own portfolio and to teach at the University of Florida Law School. In 1968, Mr. Silverstein became the principal founder and shareholder in Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Since January 2001, Mr. Silverstein has

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

been a private investor.

Dennis J. McGillicuddy, age 65, has been a Director of the Company since May 2002. Mr. McGillicuddy graduated from the University of Florida with a B.A. degree and from the University of Florida Law School with a J.D. degree. In 1968, Mr. McGillicuddy joined Barry Silverstein in founding Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Mr. McGillicuddy has served on the boards of various charitable organizations. He is currently president of the Board of Trustees of Florida Studio Theater, a professional non-profit theater organization, and he serves as a Co-Chair, together with his wife, of Embracing Our Differences, an annual month long art exhibit that promotes the values of diversity and inclusion. Also, Mr. McGillicuddy is an officer and board member of The Florida Winefest and Auction Inc., a Sarasota-based charity, which provides funding for programs of local charities that deal with disadvantaged children and their families.

Georgia Murray, age 56, has been a Director of the Company since April 2005 and Chair of the Compensation Committee since October 2006. Ms. Murray is retired from Lend Lease Real Estate Investments, Inc., where she served as a Principal from November 1999 until May 2000. From 1987 through October 1999, Ms. Murray served as Senior Vice President and Director of The Boston Financial Group, Inc. Boston Financial was an affiliate of the Boston Financial Group, Inc. She is a member of the Urban Land Institute and a past President of the Multifamily Housing Institute. She previously served on the Board of Directors of the Capital Crossing Bank, Boston, Massachusetts. She serves on the boards of numerous non-profit entities. Ms. Murray is a graduate of Newton College.

14

John N. Burke, age 45, has been a Director of the Company and Chair of the Audit Committee since June 2004. Prior to starting his own accounting, tax and consulting firm in January 2003, he was an Assurance Partner in the Boston office of BDO Seidman, LLP, an international accounting and consulting firm. From 1987 to 2003, Mr. Burke served several private and publicly traded real estate clients at BDO Seidman, LLP and assisted companies with initial public offerings, private equity and debt financings and merger and acquisition transactions. Mr. Burke's consulting experience includes SEC reporting matters, compliance with Sarbanes-Oxley, tax and business planning and evaluation of internal controls and management information systems. Mr. Burke is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants. Mr. Burke holds a Master's of Science in Taxation and studied undergraduate accounting and finance at Bentley College.

John G. Demeritt, age 46, has been the Chief Financial Officer since March 2005 and previously was Senior Vice President, Finance and Principal Accounting Officer of FSP Corp. Prior to joining the Company in September 2004, Mr. Demeritt was a Manager with Vitale Caturano & Company, Ltd., an independent accounting firm where he focused on Sarbanes Oxley compliance. Previously, from March 2002 to March 2004 he provided consulting services to public and private companies where he focused on SEC filings, evaluation of business processes and acquisition integration. During 2001 and 2002 he was Vice President of Financial Planning & Analysis at Cabot Industrial Trust, a publicly traded real estate investment trust, which was acquired by CalWest in December 2001. From October 1995 to December 2000 he was Controller and Officer of The Meditrust Companies, a publicly traded real estate investment trust (formerly known as the The La Quinta Companies, which was then acquired by the Blackstone Group), where he was involved with a number of merger and financing transactions. Prior to that, from 1986 to 1995 he had financial and accounting responsibilities at three other public companies, and was previously associated with Laventhol & Horwath, an independent accounting firm from 1983 to 1986. Mr. Demeritt is a Certified

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Public Accountant and holds a Bachelor of Science degree from Babson College.

William W. Gribbell, age 47, is an Executive Vice President of FSP Corp. and has as his primary responsibility the direct equity placement of the Sponsored REITs. Prior to the conversion, Mr. Gribbell was an Executive Vice President of the General Partner. From 1993 through 1996 he was an executive officer of Boston Financial. From 1989 to 1993 Mr. Gribbell worked at Winthrop Financial Associates. Mr. Gribbell is a graduate of Boston University (B.A.). Mr. Gribbell holds a NASD Series 7 general securities license.

R. Scott MacPhee, age 49, is an Executive Vice President of FSP Corp. and has as his primary responsibility the direct equity placement of the Sponsored REITs. Prior to the conversion, Mr. MacPhee was an Executive Vice President of the General Partner. From 1993 through 1996 he was an executive officer of Boston Financial. From 1985 to 1993 Mr. MacPhee worked at Winthrop Financial Associates. Mr. MacPhee attended American International College. Mr. MacPhee holds a NASD Series 7 general securities license.

Janet Prier Notopoulos, age 59, is a Vice President and a Director of FSP Corp. and President of FSP Property Management and has as her primary responsibility the oversight of the management of the real estate assets of FSP Corp. and its affiliates. Prior to the conversion, Ms. Notopoulos was a Vice President of the General Partner. Prior to joining the FSP Partnership in 1997, Ms. Notopoulos was a real estate and marketing consultant for various clients. From 1975 to 1983, she was Vice President of North Coast Properties, Inc., a Boston real estate investment company. Between 1969 and 1973, she was a real estate paralegal at Goodwin, Procter & Hoar. Ms. Notopoulos is a graduate of Wellesley College (B.A.) and the Harvard School of Business Administration (M.B.A.).

With the exception of John G. Demeritt, each of the above executive officers has been a full-time employee of FSP Corp. for the past five fiscal years.

There are no family relationships among any of the directors or executive officers.

15

### PART II

#### Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Commencing on June 2, 2005 the common stock of the Company began trading on the American Stock Exchange under the symbol FSP. The following table sets forth the high and low sales prices of the common stock on the American Stock Exchange for the applicable quarterly periods. Prior to June 2, 2005 there was no established public trading market for our common stock.

Three Months Ended	Range	
	High	Low
December 31, 2006	\$ 21.05	\$ 19.55
September 30, 2006	\$ 20.29	\$ 18.36
June 30, 2006	\$ 21.98	\$ 19.68
March 31, 2006	\$ 21.85	\$ 19.95
December 31, 2005	\$ 21.39	\$ 15.84

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

September 30, 2005	\$ 20.51	\$ 16.00
June 30, 2005	\$ 22.00	\$ 18.00

As of February 21, 2007, there were 5,975 holders of record of our common stock.

On January 19, 2007 we declared a dividend of \$0.31 per share of our common stock payable to stockholders of record as of January 31, 2007 that was paid on February 20, 2007. Set forth below are the distributions per share of common stock made by FSP Corp. in each quarter since 2004.

Quarter Ended -----	Distribution Per Share of Common Stock of FSP Corp. -----
December 31, 2006	\$0.31
September 30, 2006	\$0.31
June 30, 2006	\$0.31
March 31, 2006	\$0.31
December 31, 2005	\$0.31
September 30, 2005	\$0.21
June 30, 2005	\$0.41
March 31, 2005	\$0.31
December 31, 2004	\$0.31
September 30, 2004	\$0.31
June 30, 2004	\$0.31
March 31, 2004	\$0.31

While not guaranteed, we expect that cash dividends on our common stock comparable to our most recent quarterly dividend will continue to be paid in the future.

16

The following table provides information about purchases by Franklin Street Properties Corp. during the quarter ended December 31, 2006 of its common stock:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a)		(b)	(c)		Maximu Approximat of Shares May Yet Under P (
	Total Number of Shares (or Units) Purchased (1) (2)		Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) (2)		
10/01/06-10/31/06	0		N/A	0		\$21
11/01/06-11/30/06	0		N/A	0		\$21
12/01/06-12/31/06	0		N/A	0		\$21
Total:	0		N/A	0		\$21

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

(1) Our Articles of Incorporation provide that we will use our best efforts to redeem shares of our common stock from stockholders who request such redemption. Any FSP Corp. stockholder wishing to have shares redeemed must make such a request no later than July 1 of any year for a redemption that would be effective the following January 1. This obligation is subject to significant conditions. However, as our common stock is currently listed for trading on the American Stock Exchange, we are no longer obligated to, and do not intend to, effect any such redemption.

(2) On October 28, 2005 FSP Corp. announced that the Board of Directors of FSP Corp. had authorized the repurchase of up to \$35 million of the Company's common stock from time to time in the open market or in privately negotiated transactions. The stock repurchase authorization expires at the earlier of (i) November 1, 2007 or (ii) a determination by the Board of Directors of FSP Corp. to discontinue repurchases.

17

Item 6. Selected Financial Data.

The following selected financial information is derived from the historical consolidated financial statements of FSP Corp. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and with the FSP Corp.'s consolidated financial statements and related notes thereto included in Item 8.

	Year Ended December 31,			
	2006	2005	2004	2003
(In thousands, except per share or unit amounts)				
Operating Data:				
Total revenue	\$ 114,368	\$ 78,180	\$ 69,462	\$ 55,930
Income from:				
Continuing operations	43,999	31,892	34,064	28,079
Discontinued operations	5,492	12,731	13,699	11,939
Gain on sale of properties	61,438	30,493	--	6,362
Net income	110,929	75,116	47,763	46,380
Basic and diluted income per share:				
Continuing operations	0.66	0.56	0.69	0.72
Discontinued operations	0.08	0.22	0.27	0.30
Gain on sale of properties	0.91	0.54	--	0.16
Total	1.65	1.32	0.96	1.18
Distributions declared per share outstanding (1):	1.24	1.24	1.24	1.36

As of December 31,			
2006	2005	2004	2003

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Balance Sheet Data:

	-----	-----	-----	-----
Total assets	\$ 955,317	\$ 677,173	\$ 573,111	\$ 528,529
Total liabilities	33,355	15,590	70,023	11,674
Total shareholders'/partners capital	921,962	661,583	503,088	516,855

- (1) In 2003 a special dividend of \$0.12 per share was paid relating to the sale of two residential properties.

The 2006, 2005 and 2003 financial statements reflect acquisition by merger of 5, 4 and 13 Sponsored REITs, respectively. Prior to their acquisition, FSP Corp. held a non-controlling common interest with virtually no economic benefits or risks in these REITs, and a preferred interest in one of the 2006 Target REITs.

18

### 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. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as necessarily indicative of future operations. The following discussion and other parts of this Annual Report on Form 10-K may also contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, including without limitation changes in economic conditions in the markets in which we own properties, changes in the demand by investors for investment in Sponsored REITs, risks of a lessening of demand for the types of real estate owned by us, changes in government regulations, and expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs, additional staffing, insurance increases and real estate tax valuation reassessments. See "Risk Factors" in Item 1A. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We may not update any of the forward-looking statements after the date this Annual Report on Form 10-K is filed to conform them to actual results or to changes in our expectations that occur after such date, other than as required by law.

#### Overview

FSP Corp. or the Company, operates in two business segments: real estate operations and investment banking/investment services. The real estate operations segment involves real estate rental operations, leasing, interim acquisition financing, development services, asset/property management services, property acquisitions and dispositions. The investment banking/investment services segment involves the structuring of real estate investments and broker/dealer services that include the organization of Sponsored REITs, the acquisition and development of real estate on behalf of Sponsored REITs and the raising of capital to equitize the Sponsored REITs through sale of preferred stock in private placements.

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

The main factor that affects our real estate operations is the broad economic market conditions in the United States. These market conditions affect the occupancy levels and the rent levels on both a national and local level. We have no influence on the national market conditions. We look to acquire and/or develop quality properties in good locations in order to lessen the impact of downturns in the market and to take advantage of upturns when they occur.

Our investment banking/investment services customers are primarily institutions and high net-worth individuals. To the extent that the broad capital markets affect these investors our business is also affected. These investors have many investment choices. We must continually search for real estate at a price and at a competitive risk/reward rate of return that meets our customer's risk/reward profile for providing a stream of income and as a long-term hedge against inflation.

### Trends and Uncertainties

#### Real Estate Operations

Our property operations during the fourth quarter of 2006 produced profit results that were generally in line with management's expectations. We believed 2006 would be a mixed year for real estate rental operations especially in the office sector, which is our primary property type. In fact, 2006 showed some modest improvement in occupancy, but little rental rate movement in most real estate markets that we are in around the country. In most of our office markets, occupancy rates increased 1%-1.5% and sublease inventory continued to decrease. The general economy did continue to improve in 2006, and management believes that 2007 may continue the positive trend and show legitimate broad-based improvement in real estate operating fundamentals, particularly in the office markets in which we are involved. Nevertheless, assuming a normal cyclical continuation of the current U.S. economic expansion, it is likely to take at least one more year for office occupancies and rents to reach levels that were prevalent in 1999, 2000, and 2001.

19

The portfolio was approximately 89% leased at December 31, 2006 excluding leases expiring on that date. Approximately 10% of the square footage in our real estate portfolio has leases that are scheduled to expire in 2007 as compared to 17% that was scheduled to expire in 2006. We cannot predict when existing vacancy will be leased or if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, although we expect to renew or sign new leases at current market rates for the locations in which the buildings are located, which in some cases will be below the expiring rental rates.

#### Discontinued Operations and Property Dispositions

During the year ended December 31, 2006, the Company disposed of one apartment property and five commercial properties. The apartment property is located in Katy, Texas. The five commercial properties are located in Santa Clara, California, Fairfax and Herndon, Virginia and North Andover and Peabody, Massachusetts. An agreement was also reached to sell an office property in Greenville, South Carolina, which was sold on January 31, 2007. During the year ended December 31, 2005, the Company disposed of three apartment properties and three commercial properties. The three apartment properties included two that are located in Houston, Texas; and one in Baton Rouge, Louisiana. The three commercial properties are located in Folsom, California, Columbia, Maryland and San Diego, California. Accordingly, as of December 31, 2006 the South Carolina property is held for sale and is classified as such on our financial statements.



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

The operating results for these real estate assets have been reflected as discontinued operations in the financial statements for the years ended December 31, 2006, 2005 and 2004.

We continue to evaluate our portfolio, and in the future may decide to dispose of additional properties from time-to-time in the ordinary course of business.

### Investment Banking/Investment Services

Unlike our real estate operations business, which provides a rental revenue stream which is ongoing and recurring in nature, our investment banking/investment services business is transactional in nature. The Sponsored REIT syndications completed this year and the related amount of equity raised in 2006 were above our expectations. Future business in this area, while always uncertain, is becoming more encouraging to us than in the past two years.

Our property acquisition executives continue to be concerned about high valuation levels for prime commercial investment real estate. It appears that a combination of factors, including low interest rates, a growing general economy and substantially increased capital allocation to real estate assets is increasing prices on many properties we would have an interest in acquiring. This upward pressure on prices is causing capitalization rates to fall and prices per square foot to rise. Specifically, our acquisition executives have a challenge identifying enough property at a price acceptable under our investment criteria to grow our overall investment banking/investment services business. Higher revenues from this business increased Net Income and Adjusted Funds From Operations (AFFO) during 2006. As 2007 begins, valuation levels for many top quality investment properties remain at historically high levels, with significant competition from a variety of capital sources to acquire them. We continue to rely solely on our in-house investment executives to access interested investors who have capital they can afford to place in an illiquid position for an indefinite period of time (i.e., invest in a Sponsored REIT). We also continue to evaluate whether our in-house sales force is capable, either through our existing client base or through new clients, of raising sufficient investment capital in Sponsored REITs to achieve future performance objectives.

### Critical Accounting Policies

We have certain critical accounting policies that are subject to judgments and estimates by our management and uncertainties of outcome that affect the application of these policies. We base our estimates on historical experience and on various other assumptions we believe 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 accounting policies that we believe are most critical to the understanding of our financial position and results of operations, and that require significant management estimates and judgments, are discussed below.

Critical accounting policies are those that have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in Sponsored REITs and our investments in real property. These policies affect our:

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

- o allocation of purchase prices between various asset categories and the related impact on our recognition of rental income and depreciation and amortization expense;
- o assessment of the carrying values and impairments of long lived assets;
- o classification of leases; and
- o revenue recognition in the syndication of Sponsored REITs.

### Allocation of Purchase Price

We have historically allocated the purchase prices of properties to land, buildings and improvements. Each component of purchase price generally has a different useful life. For properties acquired subsequent to June 1, 2001, the effective date of Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations," we allocate the value of real estate acquired among land, buildings, improvements and identified intangible assets and liabilities, which may consist of the value of above market and below market leases, the value of in-place leases, and the value of tenant relationships. Purchase price allocations and the determination of the useful lives are based on management's estimates. Under some circumstances we may rely upon studies commissioned from independent real estate appraisal firms in determining the purchase price allocations.

Purchase price allocated to land and building and improvements is based on management's determination of the relative fair values of these assets assuming the property was vacant. Management determines the fair value of a property using methods similar to those used by independent appraisers. Purchase price allocated to above market leases is based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. Purchase price allocated to in-place leases and tenant relationships is determined as the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as if vacant. This aggregate value is allocated between in-place lease values and tenant relationships is based on management's evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from in-place lease value because such value and its consequence to amortization expense is immaterial for acquisitions reflected in our financial statements. Factors considered by us in performing these analyses include (i) an estimate of carrying costs during the expected lease-up periods, including real estate taxes, insurance and other operating income and expenses, and (ii) costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If future acquisitions result in our allocating material amounts to the value of tenant relationships, those amounts would be separately allocated and amortized over the estimated life of the relationships.

### Depreciation Expense

We compute depreciation expense using the straight-line method over estimated useful lives of up to 39 years for buildings and improvements, and up to 15 years for personal property. Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period. The allocated cost of land is not depreciated. The capitalized above-market lease values (included in acquired real estate leases in our consolidated balance sheets) are amortized as a reduction to rental income over the remaining non-cancelable terms of the respective leases. The value of above or below-market leases is amortized over the remaining non-cancelable periods of the respective leases. The value of in-place leases,

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

exclusive of the value of above-market and below-market in-place leases, is also amortized over the remaining non-cancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Inappropriate allocation of acquisition costs, or incorrect estimates of useful lives, could result in depreciation and amortization expenses which do not appropriately reflect the allocation of our capital expenditures over future periods, as is required by generally accepted accounting principles.

21

### Impairment

We periodically evaluate our real estate properties for impairment indicators. These indicators may include declining tenant occupancy, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life or legislative, economic or market changes that permanently reduce the value of our investments. If indicators of impairment are present, we evaluate the carrying value of the property by comparing it to its expected future undiscounted cash flows. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to the present value of these expected future cash flows. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future tenant profitability, market or industry factors differ from our expectations, we may record an impairment charge which is inappropriate or fail to record a charge when we should have done so, or the amount of such charges may be inaccurate.

### Lease Classification

Some of our real estate properties are leased on a triple net basis, pursuant to non-cancelable, fixed term, operating leases. Each time we enter a new lease or materially modify an existing lease we evaluate whether it is appropriately classified as a capital lease or as an operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and market value of a property, discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

### Revenue Recognition

We earn syndication and transaction fees in connection with the syndication of Sponsored REITs. This revenue is recognized pursuant to the provisions of SFAS No. 66 "Accounting for Sales of Real Estate," and Statement of Position 92-1 "Accounting for Real Estate Syndication Income." Revenue is recognized provided the criteria for sale accounting in SFAS No. 66 are met. Accordingly, we recognize syndication fees related to commissions when shares of the Sponsored REIT are sold and the investor's funds have been transferred from escrow into our account. We recognize transaction fees related to loan commitment and acquisition fees upon an investor closing and the subsequent payment of the Sponsored REIT's loan and fees payable to us. Other transaction fees are recognized upon the final closing of the syndication of the Sponsored REIT.

### Ownership of Stock in a Sponsored REIT

Common stock investments in Sponsored REITs are consolidated while the

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

entity is controlled by the Company. Following the commencement of syndication the Company exercises influence over, but does not control these entities and investments are accounted for using the equity method. Once under the equity method of accounting, our cost basis is adjusted by its share of the Sponsored REITs' earnings, if any, prior to completion of the syndication. Equity in losses of Sponsored REITs is not recognized to the extent that the investment balance would become negative. Distributions received are recognized as income once the investment balance is reduced to zero, unless there is an asset held for syndication from the Sponsored REIT entity. Equity in losses or distributions received in excess of investment is recorded as an adjustment to the carrying value of the asset held for syndication.

We recognize our share of the operations during the period we consolidate and when the equity method is appropriate, as opposed to classifying the Sponsored REITs as discontinued operations, because we earn an ongoing asset and/or property management fee from Sponsored REITs. These ongoing fees, in addition to the influence that we exercise over the Sponsored REIT, constitute a continuing involvement between the Company and the Sponsored REIT and preclude treatment as discontinued operations.

We have acquired a preferred stock interest in two Sponsored REITs. As a result of our common stock interest and our preferred stock interest in these two Sponsored REITs, we exercise influence over, but do not control these entities. These preferred share investments are accounted for using the equity method. Under the equity method of accounting our cost basis is adjusted by our share of the Sponsored REITs' operations and distributions received are recognized as income. We also agreed to vote our shares in any matter presented to a vote by the stockholders of these Sponsored REITs in the same proportion as shares voted by other stockholders of the Sponsored REITs.

22

These policies involve significant judgments made based upon our experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Recent declines in our occupancy percentages at some of our properties reflect current economic conditions and competition. Competition, economic conditions and other factors may cause additional occupancy declines in the future. In the future we may need to revise our carrying value assessments to incorporate information which is not now known and such revisions could increase or decrease our depreciation expense related to properties we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

### Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this standard is not expected to have material impact on the Company's financial position, operations or cash flow.

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

In June 2006, the FASB issued FASB Interpretation No. 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. The guidance is effective for periods beginning after December 15, 2006. The adoption of this standard is not expected to have material impact on the Company's financial position, operations or cash flow.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") regarding EITF No. 05-6, "Determining the Amortization Period for Leasehold Improvements." The guidance requires that leasehold improvements acquired in a business combination, or purchased subsequent to the inception of a lease, be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The Company has adopted EITF 05-6, which did not materially impact the Company's results of operations, financial position, or liquidity.

In March 2005, the FASB issued Interpretation No. 47, accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143 ("FIN 47"). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 was effective for the fiscal year ending December 31, 2005. The adoption of FIN 47 did not have a material impact on the Company's financial position, results of operations or cash flows.

23

### Results of Operations

We operate in two business segments: Real Estate Operations and Investment Banking/Investment Services. We consider contribution from each segment in evaluating performance. Contribution includes revenue from each segment, less related expenses such as rental property operating expenses, depreciation and amortization, commissions and interest income and expense. Selling, general and administrative expenses arise primarily from corporate related expenses and costs associated with our headquarters in Wakefield, Massachusetts where both business segments are managed and can shift between the segments depending on the level of activity in each segment and other factors. Some of the more significant factors include:

- o Increases and decreases in the number of owned properties in our real estate portfolio, and the related impact of transactions such as direct acquisition and disposition of real estate assets;
- o Increases and decreases in the number of Sponsored REITs, which are managed by the REIT, and the related impact of creating the Sponsored REITs;

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

- o Trends in the level of syndication proceeds in our investment banking segment; and
- o Increases and decreases in the level of management time related to each of our segments.

As a result of these factors, we compare the total selling, general and administrative expenses from period-to-period as we believe it more meaningful than comparison of allocated expenses to each segment.

24

The following table shows each segment for the years ended December 31, 2006 and 2005.

(in thousands)

Real Estate Operations	2006 ----	2005 ----	Change -----
<b>Revenues:</b>			
Rental income	\$ 90,270	\$ 57,693	\$ 32,577
Transaction fees	9,836	8,062	1,774
Management fees and interest income from loans	2,114	1,807	307
	102,220	67,562	34,658
<b>Expenses:</b>			
Real estate operating expenses	20,845	12,331	8,514
Real estate taxes and insurance	13,220	8,568	4,652
Depreciation and amortization	22,699	12,371	10,328
Interest	2,448	2,997	(549)
	59,212	36,267	22,945
<b>Other items:</b>			
Interest income	2,948	1,553	1,395
Equity in earnings of non-consolidated REIT's	845	1,397	(552)
	3,793	2,950	843
Contribution from real estate	46,801	34,245	12,556
<b>Investment Banking/Investment Services</b>			
<b>Revenues:</b>			
Syndication fees	10,693	9,268	1,425
Transaction fees	1,426	1,350	76
Other income	30	--	30
	12,149	10,618	1,531
<b>Expenses:</b>			
Commissions	5,522	5,005	517
Depreciation and amortization	121	132	(11)
	5,643	5,137	506

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Other items:			
Interest income	49	36	13
Taxes on income	(839)	(422)	(417)
	-----	-----	-----
	(790)	(386)	(404)
	-----	-----	-----
Contribution from investment banking	5,716	5,095	621
	-----	-----	-----
Selling, general and administrative expenses	8,518	7,448	1,070
	-----	-----	-----
Income from continuing operations	43,999	31,892	12,107
Discontinued operations, less applicable income tax:			
Income from discontinued operations	5,492	12,731	(7,239)
Gain on sale of properties	61,438	30,493	30,945
	-----	-----	-----
Net income	\$ 110,929	\$ 75,116	\$ 35,813
	=====	=====	=====

25

Comparison of the year ended December 31, 2006 to the year ended December 31, 2005

The real estate segment includes operating results of properties held in our real estate portfolio, commitment fee income earned on real estate loans and development fees earned for services provided. During 2005 we increased the real estate portfolio by four properties from the merger of the 2005 Target REITs and two properties by acquisitions completed during the year. We also sold six properties in the second half of 2005 and reached an agreement to sell another property, which closed in the second quarter of 2006. As a result, as of December 31, 2005 we operated 27 properties and had one property held for sale. During 2006 we acquired the five 2006 Target REITs by merger, acquired three additional properties with cash, sold six properties and reached an agreement to sell another property, which closed on January 31, 2007. As a result, as of December 31, 2006 we operated 29 properties and had one property held for sale.

#### Acquisitions, Mergers and Dispositions:

In February 24, 2005 we acquired one commercial property in Colorado, on April 30, 2005 we completed the acquisition by merger of the four 2005 Target REITs, and in July 6, 2005 we acquired one commercial property in Indiana. On February 24, 2006 we acquired one commercial property in Texas, on April 30, 2006 we completed the acquisition by merger of the five 2006 Target REITs, on June 27, 2006 we acquired a commercial property in Georgia and on December 21, 2006 we acquired a commercial property in Broomfield, Colorado. The results of operations for each of the acquired or merged properties are included in our operating results as of their respective purchase or merger dates. Increases in rental revenues and expenses for the year ended December 31, 2006 as compared to the same periods in 2005 are primarily a result of the timing of these acquisitions and subsequent contribution of these acquired properties. The operating results of the twelve properties sold and the property held for sale were classified as discontinued operations in our financial statements for all periods presented.

#### Sales of Real Estate:

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

The sales of real estate in 2006 included the following. On May 24, 2006 we sold an apartment building in Katy, Texas, and on May 31, 2006 we sold two commercial properties, one in Santa Clara, California and another in Fairfax, Virginia. On August 9, 2006 we sold a commercial property in Peabody, Massachusetts, on November 16, 2006 we sold a commercial property in Herndon, Virginia and on December 21, 2006 we sold a commercial property in North Andover, Massachusetts. As of December 31, 2006, we classified a property in Greenville, South Carolina as held-for-sale, which was sold on January 31, 2007.

### Investment Banking:

Our investment banking/investment services segment completed the syndication of two Sponsored REITs with total gross proceeds of \$170.2 million in 2006 compared to three Sponsored REITs with total gross proceeds of \$138.8 million in 2005. During the year ended December 31, 2004 we completed eight Sponsored REITs with total gross proceeds of \$208.2 million. The \$31.4 million increase in 2006 reversed the trend of declines noted in 2005, which had been attributable to difficulty in finding properties that met our investment criteria, and is discussed above in "Trends and Uncertainties - Investment Banking/Investment Services." Revenues and expenses for investment banking/investment services are directly related to the gross proceeds of these syndications.

### Overview

Total revenues increased \$36.2 million, or 46.3%, to \$114.4 million for the year ended December 31, 2006 as compared to \$78.2 million for the year ended December 31, 2005. Total expenses were \$73.4 million for the year ended December 31, 2006, an increase of \$24.5 million, or 50.2%, compared to the year ended December 31, 2005. The increase in revenue and expenses were primarily a result of acquisitions and mergers in our real estate segment discussed above and, to a lesser extent an increase in Investment Banking/Investment Services contribution in 2006 compared to 2005. Each segment is further discussed below.

26

### Real Estate Operations

Contribution from the real estate segment was \$46.8 million for the year ended December 31, 2006; an increase of \$12.6 million, or 36.7%, compared to the year ended December 31, 2005. The increase is primarily attributable to:

- o An increase in real estate operating income of \$19.4 million to \$56.2 million for the year ended December 31, 2006 compared to \$36.8 million for same period in 2005. We define real estate operating income as rental revenues less real estate operating expenses, real estate taxes and insurance. The increase was primarily a result of:
  - o Real estate operating income from our acquisition of the four 2005 Target REITs by merger on April 30, 2005, acquisitions by direct purchase of properties in Colorado during February 2005, Indiana during July 2005, Texas during February 2006, our acquisition of the five 2006 Target REITs by merger on April 30, 2006, the acquisition of a property in Georgia in late June 2006 and the acquisition of a property in Colorado in late December 2006. Real estate operating income from acquisitions is included in current operating income. Collectively, these acquisitions resulted in an increase in real estate operating income for the year ended December 31, 2006 compared to the year ended December 31, 2005; and
  - o Lease termination payments of \$7.5 million during the year



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

ended December 31, 2006, including \$4.7 million from a tenant in Illinois, \$1.4 million from a tenant in Colorado, \$0.8 million from a tenant in California, \$0.3 million from a tenant in Indiana and \$0.3 million from a tenant in Texas as compared to \$1.0 million during the year ended December 31, 2005, including \$0.7 million from a tenant at a property in Texas, \$0.2 million from a property in California and \$0.1 million from a tenant in Massachusetts.

- o A decrease in interest expense of \$0.5 million resulting from a lower average loan balance outstanding for syndications in process during the year ended December 31, 2006 compared to the year ended December 31, 2005. A contributing factor was the use of our cash as a source of funds to finance a portion of the syndication of FSP Phoenix Tower Corp., which was completed on September 22, 2006, and the syndication of FSP 50 South Tenth Street Corp., which was substantially completed on December 28, 2006. The decrease was partially offset by higher interest rates and loan fees in the 2006 period than the 2005 period.
- o An increase to interest income of \$1.4 million during the year ended December 31, 2006, which was primarily a result of higher interest rates earned on higher average balances of cash, cash equivalents and other investments compared to the year ended December 31, 2005.
- o A \$1.8 million increase in transaction (loan commitment) fees, which was principally a result of the increase in gross syndication proceeds in the year ended December 31, 2006 compared to the same period in 2005.
- o An increase in loan interest income of \$0.3 million principally as a result of increased loan interest income from interim mortgages made to Sponsored REITs and increases to overall interest rates during the year ended December 31, 2006 compared to the same period in 2005.

These increases were partially offset by:

- o An increase in depreciation expense of \$10.3 million to \$22.7 million for the year ended December 31, 2006 as compared to \$12.4 million for the same period in 2005. The increase was primarily a result of property acquisitions over the last twelve months.
- o A decrease in equity in income from non-consolidated REITs of \$0.5 million, which was principally a result of the timing of investor closings on the syndications in process during the year ended December 31, 2006 compared to the syndications in process during the same period in 2005.

### Investment Banking/Investment Services

Contribution of the investment banking/investment services segment increased \$0.6 million to \$5.7 million for the year ended December 31, 2006 or 12.2% compared to the year ended December 31, 2005. The increase was primarily attributable to:

27

- o An increase in syndication and transaction fee revenues of \$1.5 million, which was primarily attributable to the increase in gross syndication proceeds from which these revenues are based.

This increase was partially offset by:

- o An increase in commission expense of \$0.5 million, which relates to the increase in gross syndication proceeds; and

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

- o An increase in tax expense of \$0.4 million to \$0.8 million for the year ended December 31, 2006 as compared to \$0.4 million for the year ended December 31, 2005 primarily due to a greater taxable income from the investment banking and services business in 2006 compared to 2005. During 2006 and 2005 we had an effective tax rate of 40.3%. We expect an effective tax rate of approximately 40.3% for our taxable REIT subsidiary in the future.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$1.1 million to \$8.5 million for the year ended December 31, 2006 compared to \$7.4 million for the year ended December 31, 2005, which was primarily a result of compensation and other costs relating to merger, acquisition and disposition activity and monitoring and managing a larger portfolio of REITs. We had approximately 38 and 39 employees, respectively as of December 31, 2006 and 2005 at our headquarters in Wakefield, Massachusetts.

Income from continuing operations

Contribution from both segments, net of selling, general and administrative expenses for 2006 increased \$12.1 million to \$44.0 million compared to \$31.9 million for the reasons discussed above.

Discontinued operations and gain on sale of properties

During 2006 we sold six properties, each of which was sold at gains. We also reached an agreement to sell another commercial property, located in Greenville, South Carolina, which closed on January 31, 2007 at a loss. In evaluating the Greenville, South Carolina property, we compared estimated future costs to upgrade and reposition the multi-tenant property and to lease up the building. We concluded that accepting the offer was the more prudent decision because the management time and oversight of such a project outweighed the potential future benefit.

Accordingly, as of December 31, 2006, each of the six properties sold and the property classified as held for sale are classified as discontinued operations on our financial statements. Income from discontinued operations of the seven properties was approximately \$5.5 million and \$12.7 million for the years ended December 31, 2006 and 2005, respectively. For the year ended December 31, 2006 we reported \$61.4 million as gain on sale of properties including a provision for loss on the property held for sale. For the year ended December 31, 2005 we reported \$30.5 million as net gains on sale of properties.

During the year ended December 31, 2006 gains on sales of properties and a provision for loss from assets held for sale were recognized and are summarized below:

(dollars in thousands)

Property Address -----	City/ State -----	Property Type ----	Date of Sale ----
22400 Westheimer Parkway	Katy, TX	Apartment	May 24, 20
4995 Patrick Henry Drive	Santa Clara, CA	Office	May 31, 20
12902 Federal Systems Park Drive	Fairfax, VA	Office	May 31, 20

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

One Technology Drive	Peabody, MA	Industrial	August 9, 20
2251 Corporate Park Drive	Herndon, VA	Office	November 16, 20
451 Andover Street			
& 203 Turnpike Street	North Andover, MA	Office	December 21, 20
Net Sales Proceeds and Gain			
on sales of real estate			
Provision for loss on property held for sale:			
33 & 37 Villa Road	Greenville, SC	Office	January 31, 20

### Net Income

The resulting net income for the year ending December 31, 2006 was \$110.9 million compared to net income of \$75.1 million for the year ended December 31, 2005.

29

The following table shows each segment for the years ended December 31, 2005 and 2004.

(in thousands)

	2005	2004
	----	----
Real Estate Operations		
Revenues:		
Rental income	\$ 57,693	\$ 41,209
Transaction fees	8,062	11,976
Management fees and interest income from loans	1,807	581
	-----	-----
	67,562	53,766
	-----	-----
Expenses:		
Real estate operating expenses	12,331	7,307
Real estate taxes and insurance	8,568	5,855
Depreciation and amortization	12,371	7,675
Interest	2,997	1,527
	-----	-----
	36,267	22,364
	-----	-----
Other items:		
Interest income	1,553	818
Equity in earnings of non-consolidated REIT's	1,397	620
	-----	-----
	2,950	1,438
	-----	-----
Contribution from real estate	34,245	32,840
	-----	-----
Investment Banking/Investment Services		
Revenues:		

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Syndication fees	9,268	13,579
Transaction fees	1,350	2,117
	-----	-----
	10,618	15,696
	-----	-----
Expenses:		
Commissions	5,005	6,959
Depreciation and amortization	132	147
	-----	-----
	5,137	7,106
	-----	-----
Other items:		
Interest income	36	46
Taxes on income	(422)	(1,725)
	-----	-----
	(386)	(1,679)
	-----	-----
Contribution from investment banking	5,095	6,911
	-----	-----
Selling, general and administrative expenses	7,447	5,687
	-----	-----
Income from continuing operations	31,893	34,064
Discontinued operations, less applicable income tax:		
Income from discontinued operations	12,730	13,699
Gain on sale of properties	30,493	--
	-----	-----
Net income	\$ 75,116	\$ 47,763
	=====	=====

30

Comparison of the year ended December 31, 2005 to the year ended December 31, 2004

The real estate segment includes operating results of properties held in our real estate portfolio, commitment fee income earned on real estate loans and development fees earned for services provided. During 2004 we operated 28 properties for the full year and there were no acquisitions, mergers or property sales. During 2005 we increased the real estate portfolio by four properties from a merger of the 2005 Target REITs and two properties by acquisitions completed during the year. We also sold six properties in the second half of 2005. During 2006 we sold six properties and reached an agreement to sell another property, which is held for sale and was closed on January 31, 2007. Consequently, as of December 31, 2005 we operated 27 properties, of which 7 were subsequently sold. All of the properties sold or held for sale are classified as discontinued operations in our financial statements for all periods presented.

Acquisitions, Mergers and Dispositions:

In February 2005 we acquired one commercial property in Colorado, on April 30, 2005 we completed the acquisition by merger of the 2005 Target REITs, and in July 2005 we acquired one commercial property in Indiana. The results of operations for each of the acquired or merged properties are included in our operating results as of their respective purchase date or the merger date of April 30, 2005. Increases in rental revenues and expenses for the year ended December 31, 2005 as compared to 2004 are primarily a result of these

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

acquisitions and the merger. The operating results of the 12 properties sold and the property held for sale were classified as discontinued operations in our financial statements for all periods presented.

### Sales of Real Estate:

The 2006 sales, which affect the 2005 and 2004 presentation included the following. On May 24, 2006 we sold an apartment building in Katy, Texas, and on May 31, 2006 we sold two commercial properties, one in Santa Clara, California and another in Fairfax, Virginia. On August 9, 2006 we sold a commercial property in Peabody, Massachusetts, and on November 16, 2006 we sold a commercial property in Herndon, Virginia and on December 21, 2006 we sold a commercial property in North Andover, Massachusetts. As of December 31, 2006, we classified a property in Greenville, South Carolina as held-for-sale, which was closed on January 31, 2007.

The 2005 sales included the following. On July 13, 2005 we sold one vacant office property in California, and on September 16 and September 19, 2005, we sold a residential apartment building in Louisiana and sold by transfer of our interest in our wholly-owned subsidiary that held the property, an office property in Maryland. On September 29, 2005, we recorded a non-monetary exchange gain of \$339,000 from contribution of 2.9 acres of developable land in exchange for 8.5 preferred shares (approximately 3.05%) of a Sponsored REIT, FSP Park Ten Development Corp. On October 4 and October 5, 2005 we sold two residential apartment buildings in Houston, Texas, and on December 8, 2005 we sold a commercial property in San Diego, California.

### Investment Banking:

Our investment banking/investment services segment completed the syndication of three Sponsored REITs with total gross proceeds of \$138.8 million in 2005 compared to eight Sponsored REITs with total gross proceeds of \$208.2 million in 2004. This decrease followed the trend noted in 2004 and 2005 and was attributable to continued difficulty in finding properties that met our investment criteria in 2005, as compared to 2004, and is discussed above in "Trends and Uncertainties - Investment Banking/Investment Services." Revenues and expenses for investment banking/investment services are directly related to the gross proceeds of these syndications.

### Overview

Total revenues increased \$8.7 million, or 12.6%, to \$78.2 million for the year ended December 31, 2005, as compared to \$69.5 million for the year ended December 31, 2004. Total expenses were \$48.9 million for the year ended December 31, 2005, an increase of \$13.7 million, or 39.0%, compared to the year ended December 31, 2004. Each segment is discussed below.

31

### Real Estate Operations

Contribution from the real estate segment was \$34.2 million for the year ended December 31, 2005, an increase of \$1.4 million, or 4.3%, compared to the year ended December 31, 2004. The increase is primarily attributable to:

- o An increase in real estate operating income of \$8.7 million to \$36.8 million for the year ended December 31, 2005 compared to \$28.1 million for the comparable 2004 period. The increase primarily relates to the four properties from the merger of the 2005 Target REITs, which we acquired on April 30, 2005, and two properties

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

acquired in Colorado and Indiana that were described earlier. We define real estate operating income as rental revenues less real estate operating expenses, real estate taxes and insurance;

- o An increase in management fees and interest income of \$1.2 million to \$1.8 million for the year ended December 31, 2005 compared to \$0.6 million for the year ended December 31, 2004. The increase is primarily attributable to interest income from Sponsored REITs, which had higher interest rates charged and larger loan balances outstanding for a longer period of time during the comparable periods, and, to a lesser extent increases to management fees earned from Sponsored REITs;
- o An increase from equity in income from non-consolidated REITs of \$0.8 million as a result of Sponsored REITs in syndication with greater net operating income during the year ended December 31, 2005 compared to the year ended December 31, 2004; and
- o An increase in interest income of \$0.7 million during the year ended December 31, 2005, which was primarily a result of larger cash balances and higher interest rates on cash and cash equivalents during the year ended December 31, 2005 compared to the year ended December 31, 2004.

These increases were partially offset by:

- o A decrease in transaction fee revenues of \$3.9 million to \$8.1 million for the year ended December 31, 2005 as compared to \$12.0 million for the year ended December 31, 2004. The decrease was principally caused by the year-over-year decrease in gross syndication proceeds;
- o An increase in depreciation and amortization of \$4.7 million to \$12.4 million for year ended December 31, 2005 compared to \$7.7 million for the year ended December 31, 2004, which relates to the four properties from the merger of the 2005 Target REITs, which we acquired on April 30, 2005, and two properties acquired in Colorado and Indiana; and
- o An increase in interest expense of \$1.5 million resulting from higher interest rates and larger loan balances outstanding for assets acquired during the year ended December 31, 2005 compared to the year ended December 31, 2004.

### Investment Banking/Investment Services

Contribution of the investment banking/investment services segment was \$5.1 million for the year ended December 31, 2005, a decrease of \$1.8 million, or 26.3%, compared to the year ended December 31, 2004. The decrease was primarily attributable to:

- o A decrease in syndication fee revenues of \$5.1 million, which was primarily attributable to the continued difficulty in finding properties that met our investment criteria in 2005, as compared to 2004, discussed above in "Trends and Uncertainties - Investment Banking/Investment Services".

This decrease was partially offset by:

- o A decrease in commission expense of \$2.0 million, which relates to the decrease in gross syndication proceeds;
- o A decrease in tax expense of \$1.3 million to \$0.4 million for the year ended December 31, 2005 as compared to \$1.7 million for the year ended December 31, 2004 primarily due to a lower taxable income from the investment banking and services business in 2005 compared to 2004. During 2005 we had an effective tax rate of 40.3% compared to 38.7% for 2004. The effective rate in 2004 was lower as a result

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

- o of an adjustment to the statutory rate to better reflect the benefit of lower tax rates at lower levels of taxable income; and
- o A decrease in interest income of \$10,000 to \$36,000 for the year ended December 31, 2005 compared to 2004, primarily as a result of lower cash balances and lower gross syndication proceeds in 2005 compared to 2004.

32

### Selling, general and administrative expenses

Selling, general and administrative expenses increased \$1.7 million to \$7.4 million for the year ended December 31, 2005 compared to \$5.7 million for the year ended December 31, 2004, which increase was primarily a result of compensation and other costs relating to monitoring and managing a larger portfolio of REITs and expenses related to having a publicly traded stock, which commenced on June 2, 2005. These increases were partially offset by decreases to professional fees related to an investor related project completed in 2004. We had 39 and 37 employees, respectively as of December 31, 2005 and 2004 at our headquarters in Wakefield, Massachusetts.

### Income from continuing operations

Contribution from both segments, net of selling, general and administrative expenses for 2005 decreased \$2.2 million to \$31.9 million compared to \$34.1 million in 2004 for the reasons discussed above.

### Discontinued operations and gain on sale of properties

During 2006 we sold six properties, each of which was sold at gains. We also reached an agreement to sell another commercial property, located in Greenville, South Carolina, which closed on January 31, 2007 at a loss. These sales affect the 2005 and 2004 presentation, as prior year results from each property are reclassified as discontinued operations.

During June 2005 an agreement was reached to sell a property called Blue Ravine, which is located in Folsom, California. The sale was completed on July 13, 2005 and resulted in a loss of approximately \$1.1 million. The property had been vacant since mid-2003. The offer to purchase the property was compared to estimated future costs to convert the property from a single tenant to a multi-tenant facility and lease the building. We concluded that accepting the offer was the more prudent decision because the management time and oversight of such a conversion outweighed the potential future benefit.

On September 29, 2005, we recorded a non-monetary exchange gain of \$0.3 million from contribution of 2.9 acres of developable land we contributed in exchange for 8.5 preferred shares (approximately 3.05%) of a Sponsored REIT, FSP Park Ten Development Corp. ("Park Ten Development"). The appraised value of the land and market value of the stock acquired were used to estimate the sale price, and the gain was recorded net of the Company's interest in Park Ten Development. Also during September 2005 we sold a residential property called Mansions in the Park, which is located in Baton Rouge, Louisiana, and sold by transfer of our interest in a wholly-owned subsidiary that held an office property called Gateway Crossing, which is located in Columbia, Maryland at gains, which aggregated approximately \$14.1 million.

During October 2005 we sold two residential properties called Essex House and Gael Apartments, which are located adjacent to each other in Houston, Texas; and in December 2005 we sold an office property called Telecom Business Center in San Diego, California. All of these properties were sold at gains which

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

aggregated approximately \$17.2 million.

Accordingly, as of December 31, 2005, all of the sold properties and the property classified as held for sale are classified as discontinued operations on our financial statements. Income from discontinued operations of the 13 properties was approximately \$12.7 million and \$13.7 million for the years ended December 31, 2005 and 2004, respectively. For the year ended December 31, 2005 we reported \$30.5 million as net gains on sale of properties. During 2004 there were no assets sold.

### Net Income

The resulting net income for the year ending December 31, 2005 was \$75.1 million compared to net income of \$47.8 million for the year ended December 31, 2004.

33

### Liquidity and Capital Resources

Cash and cash equivalents were \$70.0 million and \$69.7 million at December 31, 2006 and December 31, 2005, respectively. This increase of \$0.3 million is attributable to \$74.9 million provided by operating activities, and \$6.5 million provided by investing activities, less \$81.1 million used for financing activities. Presentation of our consolidated statements of cash flows combines cash flows from continuing operations with those of discontinued operations. Where significant, cash flows from discontinued operations are discussed below. Management believes that existing cash, cash anticipated to be generated internally by operations, cash anticipated to be generated by the sale of preferred stock in future Sponsored REITs and our line of credit will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months.

#### Operating Activities

The cash provided by our operating activities of \$74.9 million, which includes \$7.6 million from the discontinued operations from sales of real estate assets and the property held for sale, is primarily attributable to net income of \$110.9 million excluding non-cash activity, consisting primarily of the gain on sale of real estate assets net of a provision for loss on a property held for sale of \$61.4 million, depreciation and amortization of \$32.1 million; less payment of deferred leasing commissions of approximately \$5.9 million and uses arising from other current accounts of \$0.8 million.

#### Investing Activities

Our cash provided by investing activities of \$6.5 million is attributable to the proceeds from sale of properties of \$173.2 million; plus cash acquired through our merger transaction that was completed on April 30, 2006 of \$13.8 million; less uses of \$166.2 million for acquisitions and additions to real estate investments and office equipment, which includes \$0.3 million in additions made to properties sold during 2006; plus an investment in a certificate of deposit of \$5.1 million and an investment in non-consolidated REITs of \$4.1 million; plus costs paid related to the merger of \$0.8 million; less changes in deposits on real estate assets of \$4.3 million.

#### Financing Activities

Our cash used by financing activities of \$81.1 million is attributable to approximately \$81 million of distributions to shareholders and offering costs



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

associated with the merger of \$0.1 million.

### Line of Credit

We have a revolving line of credit agreement with a group of banks providing for borrowings of up to \$150 million. During August 2005 the line of credit was amended and restated, and the maturity date was extended to August 18, 2008. Borrowings under the line of credit bear interest at either the bank's prime rate (8.25% at December 31, 2006) or a rate equal to LIBOR plus 125 basis points (6.57% at December 31, 2006). There were no borrowings outstanding under the line of credit at December 31, 2006. However, on January 4, 2007 we borrowed the entire \$150 million for the purpose of making an interim mortgage loan to a Sponsored REIT, which acquired a property on January 5, 2007. We are in compliance with all bank covenants required by the line of credit.

### Contingencies

We are subject to various legal proceedings and claims that arise in the ordinary course of its business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not have a material adverse effect on our financial position or results of operations.

### Assets Held for Syndication

As of December 31, 2006 and 2005, respectively, there were no assets held for syndication. On September 22, 2006 we completed the syndication of FSP Phoenix Tower Corp., and on January 9, 2007 we completed the syndication of FSP 50 South Tenth Street Corp.

34

### Assets Held for Sale

During 2006 an agreement was reached to sell a commercial property in Greenville, South Carolina at a loss, which was sold on January 31, 2007. Accordingly, as of December 31, 2006 the property is classified as held for sale on the balance sheet at its approximate net sales price.

### Related Party Transactions

During 2006, we completed the syndication of FSP Phoenix Tower Corp. and substantially completed the syndication of FSP 50 South Tenth Street Corp. As part of the syndication of FSP Phoenix Tower Corp., we also purchased 48 shares of Preferred Stock of FSP Phoenix Tower Corp. for approximately \$4.1 million, representing approximately a 4.6% interest. We did not enter into any other significant transactions with related parties during 2006. For a discussion of transactions between us and related parties during 2006, see Footnote No. 5 "Related Party Transactions" to the Consolidated Financial Statements included in this Annual Report on Form 10-K for the year ended December 31, 2006.

### Other Considerations

We generally pay the ordinary annual operating expenses of our properties from the rental revenue generated by the properties. For the years ending December 31, 2006 and 2005, the rental income exceeded the expenses for each individual property, with the exception of a property located in Westford, Massachusetts, a property located in Santa Clara, California that was sold on May 31, 2006 and a property located in Folsom, California that was sold on July 13, 2005. The property located in Westford, Massachusetts had a single tenant

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

lease, which expired on October 31, 2004. We have not re-let this property and expect that it will not produce revenue to cover its expenses in the first quarter of 2007. The Westford, Massachusetts property had operating expenses of approximately \$238,000 and \$293,000 for the year ended December 31, 2006 and 2005, respectively. During the year ended December 31, 2005, the Company received a restoration and settlement payment from a tenant at the property located in Westford, Massachusetts of \$84,000. Operating expenses, net of the restoration and settlement payment were approximately \$209,000. The property located in Santa Clara, California had been vacant since October 2005 and had operating expenses of \$73,000 for the five month period ending through May 31, 2006 on which date the property was sold. The property located in Folsom, California, which was sold on July 13, 2005, had been vacant since June 2003 and had operating expenses of approximately \$103,000 for the period of January 1, 2005 through July 13, 2005.

Rental Income Commitments

Our commercial real estate operations include the leasing of office buildings and industrial properties subject to leases with terms greater than one year. The leases thereon expire at various dates through 2015. Approximate future minimum rental income from non-cancelable operating leases as of December 31, 2006 is:

(in thousands)	Year ended December 31,
=====	
2007	\$ 72,866
2008	68,585
2009	59,106
2010	44,996
2011	34,508
Thereafter (2012-2016)	87,195
	-----
	\$ 367,256
	=====

35

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2006.

Contractual Obligations	Payment due by period (in thousands)						
	Total	2007	2008	2009	2010	2011	After 2
Line of Credit	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Operating Leases	490	308	182	--	--	--	--
Total	\$490	\$308	\$182	\$ --	\$ --	\$ --	\$ --

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

The operating leases in the table above consist of our lease of corporate office space, which was amended in 2003. The lease includes a base annual rent and additional rent for our share of taxes and operating costs.

### Off-Balance Sheet Arrangements

#### Investments in Sponsored REITs

As part of our business model we organize single-purpose entities that own real estate, purchases of which are financed through the private placement of equity in those entities, typically through syndication. We call these entities Sponsored REITs, and they are operated in a manner intended to qualify as real estate investment trusts. We earn fees related to the sale of preferred stock in the Sponsored REITs in these syndications. The Sponsored REITs issue both common stock and preferred stock. The common stock is owned solely by FSP Corp. Generally the preferred stock is owned by unaffiliated investors, however, on three occasions we acquired an interest in preferred shares of three Sponsored REITs. In addition, two non-management directors of FSP Corp., have from time to time invested in Sponsored REITs and may do so again in the future. Following consummation of the offerings, the preferred stockholders in each of the Sponsored REITs are entitled to 100% of the Sponsored REIT's cash distributions. Subsequent to the completion of the offering of preferred shares, except for the preferred stock we own, we do not share in any of a Sponsored REIT's earnings, or any related dividend, and the common stock ownership interests have virtually no economic benefit or risk. Prior to the completion of the offering of preferred shares, we share in a Sponsored REIT's earnings (and related dividends) to the extent of our ownership interest in the Sponsored REIT.

As a common stockholder, upon completion of the syndication, we have no rights to the Sponsored REIT's earnings or any related cash distributions. However, upon liquidation of a Sponsored REIT, we are entitled to our percentage interest in any proceeds remaining after the preferred stockholders have recovered their investment. Our percentage interest in each Sponsored REIT is less than 0.1%. The affirmative vote of the holders of a majority of the Sponsored REIT's preferred stockholders is required for any actions involving merger, sale of property, amendment to charter or issuance of additional capital stock. In addition, all of the Sponsored REITs allow the holders of more than 50% of the outstanding preferred shares to remove (without cause) and replace one or more members of that Sponsored REIT's board of directors.

Common stock investments in Sponsored REITs are consolidated while the entity is controlled by us. Following the commencement of syndication we exercise influence over, but do not control these entities and investments are accounted for using the equity method. Under the equity method of accounting, our cost basis is adjusted by its share of the Sponsored REITs' earnings, if any, prior to completion of the syndication. Equity in losses of Sponsored REITs is not recognized to the extent that the investment balance would become negative and distributions received are recognized as income once the investment balance is reduced to zero, unless there are assets held for syndication from the Sponsored REIT entity. Equity in losses or distributions received in excess of investment is recorded as an adjustment to the carrying value of the asset held for syndication.

We have acquired a preferred stock interest in three Sponsored REITs, one of which was included in the 2006 Target REITs that the Company acquired by merger on April 30, 2006, that was accounted for as a purchase, and the acquired

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

assets and liabilities were recorded at their fair value. As a result of our common stock interest and our preferred stock interest in the remaining two Sponsored REITs, we exercise influence over, but do not control these entities. These preferred share investments are accounted for using the equity method. Under the equity method of accounting our cost basis is adjusted by our share of the Sponsored REITs' operations and distributions received are recognized as income. We also agreed to vote our shares in any matter presented to a vote by the stockholders of these Sponsored REITs in the same proportion as shares voted by other stockholders of the Sponsored REITs. These investments are included in our financial statements.

At December 31, 2006, we held a common stock interest in 10 Sponsored REITs nine of which were fully syndicated, and one was substantially syndicated, from which we no longer share economic benefit or risk. At December 31, 2005, we held a common stock interest in 13 Sponsored REITs, all of which were fully syndicated and from which we no longer share economic benefit or risk. At December 31, 2004, we held a common stock interest in 15 Sponsored REITs, of which 13 were fully syndicated and we no longer shared economic benefit or risk. The value of the two entities which were not fully syndicated was approximately \$59.2 million and was shown on the consolidated balance sheets as assets held for syndication.

The table below shows our income and expenses from Sponsored REITs. Management fees of \$2,000, \$1,000, and \$102,000 for the years ended December 31, 2006, 2005 and 2004, respectively; and interest expense related to the Company's mortgage on properties is eliminated in consolidation.

(in thousands)	Year Ended December 31,		
	2006	2005	2004
	----	----	----
Operating Data:			
Rental revenues	\$ 1,416	\$ 146	\$3,772
Operating and maintenance expenses	636	63	1,439
Depreciation and amortization	326	36	584
Interest expense	597	64	922
Interest income	22	1	25
	-----		
	\$ (121)	\$ (16)	\$ 852
	=====		

During the years ended December 31, 2006, 2005 and 2004, we recorded equity in earnings of Sponsored REITs following the commencement of syndication of \$664,000, \$1,149,000 and \$390,000, respectively.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We were not a party to any derivative financial instruments at or during the year ended December 31, 2006.

We borrow from time-to-time on our line of credit. These borrowings bear interest at the bank's base rate (8.25% at December 31, 2006) or at LIBOR plus 125 basis points (6.57% at December 31, 2006), as elected by us when requesting funds as defined. As of December 31, 2006 there were no amounts outstanding under the line of credit. We have used funds drawn on our line of credit for the purpose of making interim mortgage loans to Sponsored REITs and for interim financing of acquisitions. Generally interim mortgage loans bear interest at the same variable rate payable by us under our line of credit. We therefore believe that we have mitigated our interest rate risk with respect to our borrowings for interim mortgage loans. Historically we have satisfied obligations arising from interim financing of acquisitions through cash or sale of properties in our portfolio, so we believe that we can mitigate interest rate risk with respect to

borrowings for interim financing of acquisitions as well.

37

Item 8. Financial Statements and Supplementary Data.

The information required by this item is included elsewhere herein and incorporated herein by reference. Reference is made to the Index to Consolidated Financial Statements in Item 15 of Part IV.

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

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2006, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officer and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- o Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Company are being made only in accordance with authorizations of management and directors of the Company; and

- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

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

38

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment, management concluded that, as of December 31, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

### Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Item 9B. Other Information

Set forth as Exhibit 99.1 hereto are Selected Combining Condensed Consolidated Pro Forma Financial Data of the Company that give effect to the acquisition of One Overton Park and the acquisition of the 2006 Target REITs.

39

## PART III

Certain information required by Part III of this Form 10-K is omitted because we plan to file a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information to be included therein is incorporated herein by reference.

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

The response to this item is contained under the caption "Directors and Executive Officers of the FSP Corp." in Part I hereof and in the Proxy Statement under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Our board of directors has adopted a code of business conduct and ethics that applies to all of our executive officers, directors and employees. The code was approved by the audit committee of our board of directors and by the full board of directors. We have posted a current copy of our code under "Corporate Governance" in the "Investor Relations" section of our website at [www.franklinstreetproperties.com](http://www.franklinstreetproperties.com). To the extent permitted by applicable rules of the American Stock Exchange, we intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the code of business conduct and ethics with respect to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website.

### Item 11. Executive Compensation.

The response to this item is contained in the Proxy Statement under the captions "Executive Compensation," "Compensation of Directors" and "Compensation Committee Interlocks and Insider Participation" and is incorporated herein by reference.

The "Compensation Committee Report" contained in the Proxy Statement under the caption "Executive Compensation" shall not be deemed "soliciting material" or "filed" with the SEC or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document filed under the Securities Act or the Exchange Act.

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

The response to this item is contained in the Proxy Statement under the captions "Beneficial Ownership of Voting Stock" and "Securities Authorized for Issuance Under Equity Compensation Plans" and is incorporated herein by reference.

### Item 13. Certain Relationships and Related Transactions and Director Independence.

The response to this item is contained in the Proxy Statement under the captions "Election of Directors" and "Transactions with Related Persons" and is incorporated herein by reference.

### Item 14. Principal Accounting Fees and Services.

The response to this item is contained in the Proxy Statement under the captions "Independent Auditor Fees and Other Matters" and "Pre-Approval Policy and Procedures" and is incorporated herein by reference.

40

## PART IV

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

(a) The following documents are filed as part of this report:

1. Financial Statements:

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

The Financial Statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedule:

The Financial Statement Schedule listed on the accompanying Index to Consolidated Financial Statements is filed as part of this Annual Report on Form 10-K.

3. Exhibits:

The Exhibits listed in the Exhibit Index are filed as part of this Annual Report on Form 10-K.

41

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf as of February 23, 2007 by the undersigned, thereunto duly authorized.

FRANKLIN STREET PROPERTIES CORP.

By: /s/ George J. Carter

-----  
George J. Carter  
President and Chief Executive Officer

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

Signature -----	Title -----	Date ----
/s/ George J. Carter ----- George J. Carter	President, Chief Executive Officer and Director (Principal Executive Officer)	February 23, 2007
/s/ Barbara J. Fournier ----- Barbara J. Fournier	Vice President, Chief Operating Officer, Treasurer, Secretary and Director	February 23, 2007
/s/ John G. Demeritt ----- John G. Demeritt	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 23, 2007
/s/ Janet P. Notopoulos ----- Janet P. Notopoulos	Director, Vice President	February 23, 2007



Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

/s/ Barry Silverstein ----- Barry Silverstein	Director	February 23, 2007
/s/ Dennis J. McGillicuddy ----- Dennis J. McGillicuddy	Director	February 23, 2007
/s/ John Burke ----- John Burke	Director	February 23, 2007
/s/ Georgia Murray ----- Georgia Murray	Director	February 23, 2007

42

EXHIBIT INDEX

Exhibit No. -----	Description -----
2.1 (1)**	Agreement and Plan of Merger by and among FSP Corp., Blue Lagoon Acquisition Corp., Innsbrook Acquisition Corp., Willow Bend Acquisition Corp., 380 Interlocken Acquisition Corp., Eldridge Green Acquisition Corp., FSP Blue Lagoon Drive Corp., FSP Innsbrook Corp., FSP Willow Bend Office Center Corp., FSP 380 Interlocken Corp. and FSP Eldridge Green Corp., dated as of March 15, 2006.
2.2 (2)**	Agreement of Sale and Purchase, dated May 19, 2006, by and between One Overton Park LLC and FSP One Overton Park LLC.
3.1 (3)	Articles of Incorporation.
3.2 (4)	Amended and Restated By-laws.
10.1+ (5)	2002 Stock Incentive Plan of FSP Corp.
10.2 (6)	Second Amended and Restated Loan Agreement dated as of August 16, 2005 by and among Citizens Bank of Massachusetts, Bank of America, N.A., Chevy Chase Bank, F.S.B., FSP Corp. and certain affiliates of FSP Corp.
10.3*+	Summary of executive compensation of named executive officers.
10.4+ (7)	Summary of compensation paid to non-employee directors.
10.5+ (8)	Form of Retention Agreement.
10.6 (9)	Change in Control Discretionary Plan.
14.1 (10)	Code of Business Conduct and Ethics.

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

- 21.1\* Subsidiaries of the Registrant.
- 23.1\* Consent of Ernst & Young LLP.
- 31.1\* Certification of FSP Corp.'s President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of FSP Corp.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certification of FSP Corp.'s President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of FSP Corp.'s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1\* Selected Combining Condensed Consolidated Pro Forma Financial Data.

-----

- (1) Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on March 16, 2006 (File No. 001-32470).
- (2) Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on June 28, 2006 (File No. 001-32470).
- (3) Incorporated by reference to FSP Corp.'s Form 8-A, filed April 5, 2005 (File No. 001-32470).
- (4) Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on May 15, 2006 (File No. 001-32470).
- (5) Incorporated by reference to FSP Corp.'s Annual Report on Form 10-K, filed on March 29, 2002 (File No. 0-32615).

43

EXHIBIT INDEX, continued

- (6) Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on August 18, 2005 (File No. 001-32470).
- (7) Incorporated by reference to FSP Corp.'s Annual Report on Form 10-K, filed on March 15, 2005 (File No. 0-32615).
- (8) Incorporated by reference to FSP Corp.'s Annual Report on Form 10-K, filed on February 24, 2006 (File No. 001-32470).
- (9) Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on February 8, 2006 (File No. 001-32470).
- (10) Incorporated by reference to FSP Corp.'s Current Report on Form 8-K, filed on August 3, 2004 (File No. 0-32615).
- + Management contract or compensatory plan or arrangement filed as an Exhibit to this Form 10-K pursuant to Items 15(b) of Form 10-K.
- \* Filed herewith.
- \*\* FSP Corp. agrees to furnish supplementally a copy of any omitted schedules to this agreement to the Securities and Exchange Commission upon its request.

This Page Intentionally Left Blank

Franklin Street Properties Corp.  
Index to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Financial Statements:	
Consolidated Balance Sheets as of December 31, 2006 and 2005	F-4
Consolidated Statements of Income for each of the three years in the period ended December 31, 2006	F-6
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2006	F-7
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2006	F-8
Notes to the consolidated financial statements	F-10
Financial Statement Schedule - Schedule III	F-29

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

F-1

Report of Independent Registered Public Accounting Firm

To the Board of Directors and  
Stockholders of Franklin Street Properties Corp.:

We have audited the accompanying consolidated balance sheets of Franklin Street Properties Corp. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franklin Street Properties Corp. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Franklin Street Properties Corp.'s internal control over financial reporting as of December 31, 2006, based upon criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
February 20, 2007

F-2

### Report of Independent Registered Public Accounting Firm

To the Board of Directors and  
Stockholders of Franklin Street Properties Corp.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Franklin Street Properties Corp. maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Franklin Street Properties Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

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

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

In our opinion, management's assessment that Franklin Street Properties Corp. maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Franklin Street Properties Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2006 consolidated financial statements of Franklin Street Properties Corp. and our report dated February 20, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts  
February 20, 2007

F-3

Franklin Street Properties Corp.  
Consolidated Balance Sheets

	December
	-----
(in thousands, except share and par value amounts)	2006
=====	
Assets:	
Real estate assets:	
Land	\$ 103,922
Buildings and improvements	737,379
Fixtures and equipment	40
	-----
	841,341
Less accumulated depreciation	37,851
	-----
Real estate assets, net	803,490

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Acquired real estate leases, less accumulated amortization of \$21,548 and \$9,227, respectively	43,167
Investment in non-consolidated REITs	5,064
Assets held for sale	5,830
Cash and cash equivalents	69,973
Certificate of deposit	5,143
Restricted cash	761
Tenant rent receivables, less allowance for doubtful accounts of \$433 and \$350, respectively	2,440
Straight-line rent receivable, less allowance for doubtful accounts of \$163 and \$163, respectively	4,720
Prepaid expenses	972
Deposits on real estate assets	5,010
Other assets	1,118
Office computers and furniture, net of accumulated depreciation of \$851 and \$729, respectively	375
Deferred leasing commissions, net of accumulated amortization of \$1,323, and \$704, respectively	7,254
-----	
Total assets	\$ 955,317
=====	

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

F-4

Franklin Street Properties Corp.  
Consolidated Balance Sheets

	Dece
	-----
(in thousands, except share and par value amounts)	2006
=====	
Liabilities and Stockholders' Equity:	
Liabilities:	
Accounts payable and accrued expenses	\$ 25,275
Accrued compensation	2,643
Tenant security deposits	1,744
Acquired unfavorable real estate leases, less accumulated amortization of \$534, and \$134, respectively	3,693
-----	
Total liabilities	33,355
-----	
Commitments and contingencies	
Stockholders' Equity:	
Preferred stock, \$.0001 par value, 20,000,000 shares authorized, none issued or outstanding	--
Common stock, \$.0001 par value, 180,000,000 shares authorized, 70,766,305 and 59,794,608 shares issued and outstanding, respectively	7
Additional paid-in capital	907,794

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Treasury stock, 731,898 and 731,898 shares at cost, respectively	(14,008)
Earnings (distributions) in excess of accumulated earnings/distributions	28,169

Total stockholders' equity	921,962
Total liabilities and stockholders' equity	\$ 955,317

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

F-5

Franklin Street Properties Corp.  
Consolidated Statements of Income

(in thousands, except per share amounts)	2006	For the Year December 2005
Revenue:		
Rental	\$ 90,270	\$ 57,693
Related party revenue:		
Syndication fees	10,693	9,268
Transaction fees	11,262	9,412
Management fees and interest income from loans	2,083	1,807
Other	60	--
Total revenue	114,368	78,180
Expenses:		
Real estate operating expenses	20,845	12,330
Real estate taxes and insurance	13,220	8,568
Depreciation and amortization	22,819	12,503
Selling, general and administrative	8,518	7,448
Commissions	5,522	5,005
Interest	2,449	2,997
Total expenses	73,373	48,851
Income before interest income, equity in earnings in non-consolidated REITs and taxes on income	40,995	29,329
Interest income	2,998	1,588
Equity in earnings in non-consolidated REITs	845	1,397
Income before taxes on income	44,838	32,314
Taxes on income	839	422
Income from continuing operations	43,999	31,892
Income from discontinued operations	5,492	12,731

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Income before gain on sale of properties	49,491	44,623
Gain on sale of properties and provision for loss on property held for sale of \$4,849, less applicable income tax	61,438	30,493
Net income	\$ 110,929	\$ 75,116
Weighted average number of shares outstanding, basic and diluted	67,159	56,847
Earnings per share, basic and diluted, attributable to:		
Continuing operations	\$ 0.66	\$ 0.56
Discontinued operations	0.08	0.22
Gain on sale of properties and provision for loss on property held for sale of \$4,849, less applicable income tax	0.91	0.54
Net income per share, basic and diluted	\$ 1.65	\$ 1.32

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

F-6

Franklin Street Properties Corp.  
Consolidated Statements of Stockholders' Equity

(in thousands)	Common Stock		Additional Paid-In Capital	Treasury Stock	Earnings/ (distributions) in excess of accumulated earnings/ distributions
	Shares	Amount			
Balance, December 31, 2003	49,630	\$ 5	\$ 512,797	\$ --	\$ 3,647
Treasury shares purchased	--	--	--	(155)	--
Treasury shares issued	--	--	16	145	--
Net income	--	--	--	--	47,763
Distributions	--	--	--	--	(61,130)
Balance, December 31, 2004	49,630	5	512,813	(10)	(9,720)
Shares issued for:					
Merger	10,895	1	164,563	--	--
Compensation	2	--	21	10	--
Treasury shares purchased	(732)	--	--	(14,008)	--
Net income	--	--	--	--	75,116
Distributions	--	-	--	--	(67,208)



Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Balance, December 31, 2005	59,795	6	677,397	(14,008)	(1,812)
Shares issued for:					
Merger	10,971	1	230,397	--	--
Net income	--	--	--	--	110,929
Distributions	--	--	--	--	(80,948)
Balance, December 31, 2006	70,766	\$ 7	\$ 907,794	\$ (14,008)	\$ 28,169

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

F-7

Franklin Street Properties Corp.  
Consolidated Statements of Cash Flows

(in thousands)	For the 2006
<b>Cash flows from operating activities:</b>	
Net income	\$ 110,929
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	24,951
Amortization of above market lease	7,138
Gain on sale of real estate assets	(61,438)
Equity in earnings of non-consolidated REITs	(1,043)
Distributions from non-consolidated REITs	783
Increase in bad debt reserve	83
Shares issued as compensation	--
Changes in operating assets and liabilities:	
Restricted cash	(300)
Tenant rent receivables, net	(1,076)
Straight-line rents, net	(1,334)
Prepaid expenses and other assets, net	(327)
Accounts payable, accrued expenses & other items	1,174
Accrued compensation	752
Tenant security deposits	451
Payment of deferred leasing commissions	(5,880)
<b>Net cash provided by operating activities</b>	<b>74,863</b>
<b>Cash flows from investing activities:</b>	
Cash from issuance of common stock in the merger transaction	13,849
Purchase of real estate assets and office computers and furniture, capitalized merger costs	(159,351)
Acquired real estate leases	(6,801)
Investment in non-consolidated REITs	(4,137)
Investment in certificate of deposit	(5,143)
Merger costs paid	(838)
Changes in deposits on real estate assets	(4,300)
Investment in assets held for syndication	--
Proceeds received on sales of real estate assets	173,183

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Net cash provided by (used for) investing activities	6,462
Cash flows from financing activities:	
Distributions to stockholders	(80,948)
Purchase of treasury shares	
Offering Costs	(119)
Borrowings under bank note payable	
Repayments of bank note payable	
Deferred financing costs	
Net cash used for financing activities	(81,067)
Net increase (decrease) in cash and cash equivalents	258
Cash and cash equivalents, beginning of year	69,715
Cash and cash equivalents, end of year	\$ 69,973

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

F-8

Franklin Street Properties Corp.  
Consolidated Statements of Cash Flows

(in thousands) For the Year Ended  
2006

Supplemental disclosure of cash flow information:

Cash paid for:		
Interest	\$ 2,772	\$
Taxes on income	\$ 780	\$
Non-cash investing and financing activities:		
Assets acquired through issuance of common stock in the merger transaction, net	\$ 230,517	\$
Investment in non-consolidated REITs converted to real estate assets and acquired real estate leases in conjunction with merger	\$ 4,018	\$
Accrued costs for purchase of real estate assets	\$ 8,516	\$

See accompanying notes to consolidated financial statements.

F-9

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

1. Organization

Franklin Street Properties Corp. ("FSP Corp." or the "Company"), holds, directly

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

and indirectly, 100% of the interest in FSP Investments LLC, FSP Property Management LLC, and FSP Holdings LLC. The Company also has a non-controlling common stock interest in 10 corporations organized to operate as real estate investment trusts ("REITs").

On May 30, 2003, the shareholders of the Company approved the Company's acquisition by merger of 13 REITs (the "2003 Target REITs"). The mergers were effective June 1, 2003 and, as a result, the Company issued 25,000,091 shares in a tax-free exchange for all the outstanding preferred shares of the 2003 Target REITs. The mergers were accounted for as a purchase, and the acquired assets and liabilities were recorded at their fair value.

On April 30, 2005, the Company acquired four real estate investment trusts (the "2005 Target REITs") by the merger of the four 2005 Target REITs with and into four of the Company's wholly-owned subsidiaries. The merger was effective April 30, 2005 and, as a result, the Company issued 10,894,994 shares in a tax-free exchange for all outstanding preferred shares of the 2005 Target REITs. The mergers were accounted for as a purchase and the acquired assets and liabilities were recorded at their fair value.

On April 30, 2006, the Company acquired five real estate investment trusts (the "2006 Target REITs"), by the merger of the five 2006 Target REITs with and into five of the Company's wholly-owned subsidiaries. The merger was effective April 30, 2006 and, as a result, the Company issued 10,971,697 shares in a tax-free exchange for all outstanding preferred shares of the 2006 Target REITs. The mergers were accounted for as a purchase and the acquired assets and liabilities were recorded at their fair value.

The Company operates in two business segments: real estate operations and investment banking/investment services. FSP Investments provides real estate investment and broker/dealer services. FSP Investments' services include: (i) the organization of REIT entities (the "Sponsored REITs"), which are syndicated through private placements; (ii) sourcing of the acquisition of real estate on behalf of the Sponsored REITs; and (iii) the sale of preferred stock in Sponsored REITs. FSP Property Management provides asset management and property management services for the Sponsored REITs.

### 2. Significant Accounting Policies

#### Basis of Presentation

The accompanying consolidated financial statements include all of the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Estimates and Assumptions

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require 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. Actual results could differ from those estimates.

#### Investments in Sponsored REITs

Common stock investments in Sponsored REITs are consolidated while the entity is controlled by the Company. Following the commencement of syndication the Company exercises influence over, but does not control these entities and investments are accounted for using the equity method. Under the equity method of accounting, the Company's cost basis is adjusted by its share of the Sponsored

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

REITs' earnings, if any, prior to completion of the syndication. Equity in losses of Sponsored REITs is not recognized to the extent that the investment balance would become negative. Distributions received are recognized as income once the investment balance is reduced to zero, unless there is a loan receivable from the Sponsored REIT entity. Equity in losses or distributions received in excess of common stock investment is recorded as an adjustment up to the carrying value of the assets held for syndication.

Subsequent to the completion of the syndication of preferred shares, the Company does not share in any of the Sponsored REITs' earnings, or any related distribution, as a result of its common stock ownership.

F-10

### Franklin Street Properties Corp. Notes to the Consolidated Financial Statements

#### 2. Significant Accounting Policies (continued)

On September 22, 2006 the Company purchased 48 preferred shares (approximately 4.6%) of a Sponsored REIT, FSP Phoenix Tower Corp. ("Phoenix Tower"), for \$4,116,000. The Company agreed to vote its shares in any matter presented to a vote by the stockholders of Phoenix Tower in the same proportion as shares voted by other stockholders of the Company. The investment in Phoenix Tower is accounted for under the equity method.

Prior to April 2006, the Company held a preferred stock investment in FSP Blue Lagoon Drive Corp. ("Blue Lagoon"), which was one of the 2006 Target REITs acquired by merger on April 30, 2006, and accordingly was eliminated when recording the merger. The Company initially purchased 49.25 preferred shares (approximately 8.2%) of Blue Lagoon on January 30, 2004, and agreed to vote its shares in any matter presented to a vote by the stockholders of Blue Lagoon in the same proportion as shares voted by other stockholders of the Company. The investment in Blue Lagoon was accounted for under the equity method.

On September 29, 2005, the Company acquired 8.5 preferred shares (approximately 3.05%) of a Sponsored REIT, FSP Park Ten Development Corp. ("Park Ten Development"), in exchange for the contribution of 2.9 acres of developable land. The Company agreed to vote its shares in any matter presented to a vote by the stockholders of Park Ten Development in the same proportion as shares voted by other stockholders of the Company. The Company accounts for its investment in Park Ten Development under the equity method.

#### Real Estate and Depreciation

Real estate assets are stated at the lower of cost, less accumulated depreciation, or fair value, as appropriate, which in the opinion of management is not in excess of an individual property's estimated undiscounted cash flows.

Costs related to property acquisition and improvements are capitalized. Typical capital items include new roofs, site improvements, various exterior building improvements and major interior renovations. Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period.

Routine replacements and ordinary maintenance and repairs that do not extend the life of the asset are expensed as incurred. Typical expense items include interior painting, landscaping, minor carpet replacements and residential appliances. Funding for repairs and maintenance items typically is provided by

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

cash flows from operating activities. Depreciation is computed using the straight-line method over the assets' estimated useful lives as follows:

Category -----	Years -----
Commercial Buildings	39
Building improvements	15-39
Furniture and equipment	5-7

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 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 impairment has occurred, the affected assets must be reduced to their fair value.

F-11

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (continued)

#### Acquired Real Estate Leases and Amortization

The Company accounts for leases acquired via direct purchase, or as a result of a merger, of real estate assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141. "Business Combinations". Accordingly, the Company recorded a value relating to the leases acquired as a result of the acquisition by merger of five, four and thirteen Sponsored REITs in 2006, 2005 and 2003, respectively and three direct acquisitions in 2006 and two direct acquisitions in 2005. Acquired real estate leases represent costs associated with acquiring an in-place lease (i.e., the market cost to execute a similar lease, including leasing commission, legal, vacancy and other related costs) and the value relating to leases with rents above the market rate. Amortization is computed using the straight-line method over the life of the leases, which range from 17 months to 127 months.

Amortization related to costs associated with acquiring an in-place lease is included in depreciation and amortization on the consolidated statements of income. Amortization related to leases with rents above the market rate is included with rental revenue in the consolidated statements of income. The estimated annual amortization expense for the five years succeeding December 31, 2006 are as follows:

(in thousands) -----	
2007	\$ 11,474
2008	10,363
2009	8,135
2010	5,453
2011	3,070
2012 and thereafter	4,672

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

### Acquired Unfavorable Real Estate Leases and Amortization

The Company accounts for leases acquired via direct purchase, or as a result of a merger, of real estate assets under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141. "Business Combinations". Accordingly, the Company recorded a value relating to the leases acquired as a result of the acquisition by merger of five and four Sponsored REITs in 2006 and 2005, respectively and three direct acquisitions in 2006 and two direct acquisitions in 2005. Acquired unfavorable real estate leases represent the value relating to leases with rents below the market rate. Amortization is computed using the straight-line method over the life of the leases, which range from 20 months to 147 months.

Amortization related to leases with rents below the market rate is included with rental revenue in the consolidated statements of income. The estimated annual amortization expense for the five years succeeding December 31, 2006 are as follows:

(in thousands)	
2007	\$ 671
2008	586
2009	506
2010	433
2011	366
2012 and thereafter	1,131

### Discontinued Operations

The Company accounts for properties as held for sale under the provisions of 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 and belief by management that the sale or disposition is probable of occurrence within one year. Upon determining that a property is held for sale, the Company discontinues depreciating the property and reflects the property in its consolidated balance sheets at the lower of its carrying amount or fair value less the cost to sell. The Company presents property related to discontinued operations on its consolidated balance sheets as "Assets held for sale" on a comparative basis. The Company reports the results of operations of its properties classified as discontinued operations in its statements of income if no significant continuing involvement exists after the sale or disposition.

F-12

### Franklin Street Properties Corp. Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

### Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company had highly liquid debt instruments of United States Government Agencies and/or Government Sponsored Enterprises (GSEs) with a carrying value of \$2.0 million and \$50.7 million at December 31, 2006 and 2005, respectively. The aggregate fair value of these instruments was \$2.0 million and \$50.8 million at December 31, 2006 and 2005, respectively. Gross unrecognized holding gains on these

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

instruments were \$13,000 and \$78,000 as of December 31, 2006 and December 31, 2005, respectively. Also included in cash equivalents is \$5.1 million at December 31, 2005, of cash held in a certificate of deposit with an original maturity date exceeding three months. There were no prepayment penalties if the Company withdrew these funds prior to maturity.

### Certificate of Deposit

Investment in certificate of deposit consists of investments the Company has the ability and intent to hold until their maturity. As of December 31, 2006 the Company held a certificate of deposit with an original maturity of six months at a carrying value of \$5.1 million with an annual interest rate of 5% that matures on April 11, 2007. The Company believes the aggregate fair value is approximately the same as its carrying value.

### Restricted Cash

Restricted cash consists of tenant security deposits, which are required by law in some states and escrows arising from property sales. Tenant security deposits are refunded when tenants vacate provided that the tenant has not damaged the property. Cash held in escrow is paid when the related issue is resolved.

### Tenant Rent Receivables

Tenant rent receivables, which include receivables from assets held-for-sale, are expected to be collected within one year. The Company provides an allowance for doubtful accounts based on its estimate of a tenant's ability to make future rent payments. The computation of this allowance is based in part on the tenants' payment history and current credit status.

### Concentration of Credit Risks

Cash and cash equivalents are financial instruments that potentially subject the Company to a concentration of credit risk. The Company maintains its cash balances principally in two banks which the Company believes to be creditworthy. The Company periodically assesses the financial condition of the banks and believes that the risk of loss is minimal. Cash balances held with various financial institutions frequently exceed the insurance limit of \$100,000 provided by the Federal Deposit Insurance Corporation.

### Financial Instruments

The Company estimates that the carrying value of cash and cash equivalents, restricted cash, and the bank note payable approximate their fair values based on their short-term maturity and prevailing interest rates.

### Straight-line Rent Receivable

Certain leases provide for fixed rent increases over the life of the lease. Rental revenue is recognized on a straight-line basis over the related lease term; however, billings by the Company are based on required minimum rentals in accordance with the lease agreements. Straight-line rent receivable, which is the cumulative revenue recognized in excess of amounts billed by the Company, is \$4,720,000 and \$5,765,000 at December 31, 2006 and 2005, respectively. The Company provides an allowance for doubtful accounts based on its estimate of a tenant's ability to make future rent payments. The computation of this allowance is based in part on the tenants' payment history and current credit status. During 2005 the Company reduced its allowance by \$297,000 to \$163,000 based on such analysis. The reserve balance was not changed in 2006.

# Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

## Franklin Street Properties Corp. Notes to the Consolidated Financial Statements

### 2. Significant Accounting Policies (continued)

#### Deferred Leasing Commissions

Deferred leasing commissions represent direct and incremental external leasing costs incurred in the leasing of commercial space. These costs are capitalized and are amortized on a straight-line basis over the terms of the related lease agreements. Amortization expense was approximately \$674,000, \$430,000 and \$287,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The estimated annual amortization for the five years following December 31, 2006 is as follows:

(in thousands)	
-----	
2007	\$ 1,050
2008	968
2009	918
2010	897
2011	771
2012 and thereafter	2,650

#### Revenue Recognition

Rental Revenue - Rental revenue includes income from leases, certain reimbursable expenses, straight-line rent adjustments and other income associated with renting the property. A summary of rental revenue is shown in the following table:

(in thousands)	Year Ending December 31,		
	-----	-----	-----
	2006	2005	2004
	=====	=====	=====
Income from leases	\$ 78,902	\$ 49,634	\$ 34,782
Reimbursable expenses	17,125	10,806	5,834
Straight-line rent adjustment	1,185	1,328	593
Amortization of favorable leases	(6,942)	(4,075)	--
Other	--	--	--
	-----	-----	-----
	\$ 90,270	\$ 57,693	\$ 41,209
	=====	=====	=====

Rental Revenue, Commercial Properties -- The Company has retained substantially all of the risks and benefits of ownership of the Company's commercial properties and accounts for its leases as operating leases. Rental income from leases, which includes rent concessions (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its commercial property tenants. Reimbursable costs are included in rental income in the period earned.

The Company follows the requirements for profit recognition as set forth by SFAS No. 66 "Accounting for Sales of Real Estate" and Statement of Position 92-1 "Accounting for Real Estate Syndication Income".

Syndication Fees -- Syndication fees ranging from 4% to 8% of the gross offering proceeds from the sale of securities in Sponsored REITs are generally recognized



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

upon an investor closing; at that time the Company has provided all required services, the fee is fixed and collected, and no further contingencies exist. Commission expense ranging from 2% to 4% of the gross offering proceeds is recorded in the period the related syndication fee is earned. There is typically more than one investor closing in the syndication of a Sponsored REIT.

Transaction Fees -- Transaction fees relating to loan commitment fees and acquisition fees are recognized upon an investor closing and the subsequent payment of the Sponsored REIT's loan to the Company. Development fees are recognized upon an investor closing and once the service has been provided. Fees related to organizational, offering and other expenditures are recognized upon the final investor closing of the Sponsored REIT. The final investor closing is the last admittance of investors into a Sponsored REIT; at that time, required funds have been received from the investors and charges relating to the syndication have been paid or accrued.

### Other

Other income, including property and asset management fees, is recognized when the related services are performed and the earnings process is complete.

F-14

### Franklin Street Properties Corp. Notes to the Consolidated Financial Statements

## 2. Significant Accounting Policies (continued)

### Income Taxes

Taxes on income for the years ended December 31, 2006, 2005 and 2004 represent taxes incurred by FSP Investments, which is a taxable REIT subsidiary.

### Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at December 31, 2006, 2005, and 2004. The denominator used for calculating basic and diluted net income per share was 67,159,000, 56,847,000, and 49,628,000 for the years ending December 31, 2006, 2005, and 2004, respectively.

### Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this standard is not expected to have material impact on the Company's financial position, operations or cash flow.

In June 2006, the FASB issued FASB Interpretation No. 48, which clarifies the

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. The guidance is effective for periods beginning after December 15, 2006. The adoption of this standard is not expected to have material impact on the Company's financial position, operations or cash flow.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") regarding EITF No. 05-6, "Determining the Amortization Period for Leasehold Improvements." The guidance requires that leasehold improvements acquired in a business combination, or purchased subsequent to the inception of a lease, be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The Company has adopted EITF 05-6, which did not materially impact the Company's results of operations, financial position, or liquidity.

In March 2005, the FASB issued Interpretation No. 47, accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143 ("FIN 47"). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement 143, Accounting for Asset Retirement Obligations, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 was effective for the fiscal year ending December 31, 2005. The adoption of FIN 47 did not have a material impact on the Company's financial position, results of operations or cash flows.

### Reclassifications

Certain balances in the 2005 and 2004 financial statements have been reclassified to conform to 2006 presentation. The reclassifications primarily were related to disposition of six properties sold in 2006 and one asset held for sale as of December 31, 2006, which are presented as discontinued operations for all periods presented. These reclassifications changed rental revenues, operating and maintenance expenses, depreciation and amortization, other income and the related assets. There was no change to net income for any period presented as a result of these reclassifications.

F-15

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

### 3. Business Segments

The Company operates in two business segments: real estate operations (including real estate leasing, interim acquisition financing, development services and asset/property management) and investment banking/investment services (including

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

real estate acquisition and broker/dealer services). The Company has identified these segments because this information is the basis upon which management makes decisions regarding resource allocation and performance assessment. The accounting policies of the reportable segments are the same as those described in the "Significant Accounting Policies". The Company's operations are located in the United States of America.

The Company evaluates the performance of its reportable segments based on Adjusted Funds From Operations ("AFFO") as management believes that AFFO represents the most accurate measure of the reportable segment's activity and is the basis for distributions paid to equity holders. The Company defines AFFO as: net income as computed in accordance with GAAP; excluding gains or losses on the sale of real estate and non-cash income from Sponsored REITs; plus certain non-cash items included in the computation of net income (depreciation and amortization and straight-line rent adjustments); plus distributions received from Sponsored REITs; plus the net proceeds from the sale of land. Depreciation and amortization, gain or loss on the sale of real estate, and straight-line rents are an adjustment to AFFO, as these are non-cash items included in net income.

AFFO should not be considered as an alternative to net income (determined in accordance with GAAP), as an indicator of the Company's financial performance, nor as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs. Other real estate companies may define AFFO in a different manner. We believe that in order to facilitate a clear understanding of the results of the Company, AFFO should be examined in connection with net income and cash flows from operating, investing and financing activities in the consolidated financial statements. The calculation of AFFO by business segment is shown in the following table:

(in thousands):	Real Estate Operations	Investment Banking/ Investment Services
=====		
Year ended December 31, 2006:		
Net income	\$ 109,684	\$ 1,245
Gain on sale of properties	(61,438)	--
Equity in earnings of non-consolidated REITs	(1,043)	--
Distribution from non-consolidated REITs	783	--
Depreciation and amortization	31,969	121
Straight-line rent	(1,334)	--
-----		
Adjusted Funds From Operations	\$ 78,621	\$ 1,366
=====		
Year ended December 31, 2005:		
Net income	\$ 74,502	\$ 614
Gain on sale of properties	(30,493)	--
Equity in earnings of non-consolidated REITs	(1,418)	--
Distribution from non-consolidated REITs	1,217	--
Depreciation and amortization	22,108	132
Straight-line rent	(1,692)	--
-----		
Adjusted Funds From Operations	\$ 64,224	\$ 746

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Year ended December 31, 2004:		
Net income	\$ 45,030	\$ 2,733
Equity in earnings of non-consolidated REITs	(1,472)	--
Distribution from non-consolidated REITs	1,582	--
Depreciation and amortization	13,095	147
Straight-line rent	(860)	--
-----		
Adjusted Funds From Operations	\$ 57,375	\$ 2,880
=====		

F-16

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

3. Business Segments (continued)

The Company's cash distributions for the years ended December 31, 2006, 2005 and 2004 are summarized as follows:

Quarter paid	Distribution Per Share/Unit	Total Cash Distributions
=====		
(in thousands)		
Second quarter of 2006	\$ 0.31	\$ 18,536
Third quarter of 2006	0.31	21,938
Fourth quarter of 2006	0.31	21,938
First quarter of 2007 (A)	0.31	21,938
-----		
	\$ 1.24	\$ 84,350
=====		
Second quarter of 2005	\$ 0.41	\$ 20,349
Third quarter of 2005	0.21	12,711
Fourth quarter of 2005	0.31	18,763
First quarter of 2006 (A)	0.31	18,536
-----		
	\$ 1.24	\$ 70,359
=====		
Second quarter of 2004	\$ 0.31	\$ 15,385
Third quarter of 2004	0.31	15,385
Fourth quarter of 2004	0.31	15,385
First quarter of 2005 (A)	0.31	15,385
-----		
	\$ 1.24	\$ 61,540
=====		

(A) Represents distributions declared and paid in the first quarter related to the fourth quarter of the prior year.

Cash distributions per share are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that AFFO is generated.

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

## 3. Business Segments (continued)

The following table is a summary of other financial information by business segment:

	Real Estate Operations	Investment Banking/ Investment Services	Total
(in thousands)			
December 31, 2006:			
Revenue	\$ 102,220	\$ 12,149	\$ 114,369
Interest income	2,949	49	2,998
Interest expense	2,449	--	2,449
Income from discontinued operations, net	5,492	--	5,492
Capital expenditures	15,604	185	15,789
Identifiable assets	948,261	7,056	955,317
December 31, 2005:			
Revenue	\$ 67,562	\$ 10,618	\$ 78,180
Interest income	1,552	36	1,588
Interest expense	2,997	--	2,997
Income from discontinued operations, net	12,731	--	12,731
Capital expenditures	2,691	69	2,760
Identifiable assets	671,413	5,760	677,173
December 31, 2004:			
Revenue	\$ 53,765	\$ 15,696	\$ 69,461
Interest income	817	46	863
Interest expense	1,527	--	1,527
Income from discontinued operations, net	13,699	--	13,699
Capital expenditures	1,541	100	1,641
Identifiable assets	567,609	5,502	573,111

## 4. Significant Acquisitions

On April 30, 2006, the Company issued 10,971,697 shares of common stock, \$0.0001 par value per share, in exchange for all of the outstanding preferred stock of the 2006 Target REITs (other than the shares of preferred stock in Blue Lagoon held by the Company, which were cancelled) and paid approximately \$12,000 in lieu of fractional shares. The results of operations for each 2006 Target REIT have been included in the Company's consolidated financial statements since May 1, 2006. The aggregate purchase price for the 2006 Target REITs was approximately \$235,384,000.

On June 27, 2006 the Company acquired a fifteen-story Class A office property located at 3625 Cumberland Boulevard in Atlanta, Georgia ("One Overton Park") for an aggregate purchase price of approximately \$85,281,000.

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

With respect to the acquisition of each 2006 Target REIT, the excess of the purchase price of the property over the historical cost of the property was allocated to real estate investments and leases, including lease origination costs. With respect to the acquisition of One Overton Park, the purchase price of the property was allocated to real estate investments and leases, including lease origination costs. Lease origination costs represent the value associated with acquiring an in-place lease (i.e. the market cost to execute a similar lease, including leasing commission, legal, vacancy, and other related costs). The value assigned to buildings approximates their replacement cost; the value assigned to land approximates its appraised value; and the value assigned to leases approximates their fair value. Other assets and liabilities are recorded at their historical costs, which approximates fair value.

F-18

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

#### 4. Significant Acquisitions (continued)

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

	Value of Assets Acquired
	(in thousands)
Real estate assets	\$ 287,843
Value of acquired real estate leases	24,201
Cash	13,849
Acquired unfavorable leases	(1,738)
Other assets	512
Liabilities assumed	(4,002)
	-----
Total	\$ 320,665
	=====

Pro forma operating results for the Company, the 2006 Target REITs and One Overton Place are shown in the following table. The results assume that the mergers occurred and the shares of the Company's stock were issued on January 1, 2005 and that One Overton Place was acquired on January 1, 2005. The results are not necessarily indicative of what the Company's actual results of operations would have been for the period indicated, nor do they purport to represent the results of operations of any future period.

	For the Year Ended	
(unaudited)	December 31,	
(in thousands except per share amounts)	2006	2005
	-----	
Revenue	\$ 125,970	\$ 107,064
	-----	
Income from continuing operations	\$ 47,544	\$ 39,690
	-----	
Net income	\$ 114,474	\$ 82,914
	=====	
Weighted average shares outstanding	70,776	67,819

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

	=====	
Income from continuing operations per share	\$ 0.67	\$ 0.59
	=====	
Net income per share	\$ 1.62	\$ 1.22
	=====	

5. Related Party Transactions

Investment in Sponsored REITs

At December 31, 2006, we held an interest in 10 Sponsored REITs, of which nine were fully syndicated and one was substantially syndicated. Phoenix Tower was syndicated in September 2006 and the Company purchased a preferred stock investment in it. At December 31, 2005, we held an interest in 13 Sponsored REITs, all of which were fully syndicated. Park Ten Development was syndicated in September 2005 and the Company exchanged land for a preferred stock investment in it. At December 31, 2004, the Company held an interest in 15 Sponsored REITs. Twelve were fully syndicated and the Company no longer derived economic benefits or risks from them. Blue Lagoon was syndicated in January 2004 and the Company purchased a preferred stock investment in it. The remaining two entities were not fully syndicated and had a value of approximately \$59.2 million as of December 31, 2004.

F-19

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

5. Related Party Transactions (continued))

The table below shows the Company's income and expenses from Sponsored REITs. Management fees of \$2,000, \$1,000, and \$102,000 for the years ended December 31, 2006, 2005 and 2004, respectively, and interest expense related to the Company's mortgages on properties owned by these entities are eliminated in consolidation.

(in thousands)	Year Ended December 31,		
	2006	2005	2004
	----	----	----
Operating Data:			
Rental revenues	\$ 1,416	\$ 146	\$ 3,772
Operating and maintenance expenses	636	63	1,439
Depreciation and amortization	326	36	584
Interest expense	597	64	922
Interest income	22	1	25
	-----	-----	-----
	\$ (121)	\$ (16)	\$ 852
	=====		

Equity in earnings of investment in non-consolidated REITs:

The following table includes equity in earnings of investments in non-consolidated REITs:

(in thousands)	Year Ended December 31,		
	2006	2005	2004
	----	----	----

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Equity in earnings of Sponsored REITs	\$ 664	\$ 1,149	\$ 390
Equity in earnings of Blue Lagoon	75	248	230
Equity in earnings of Park Ten Development	25	--	--
Equity in earnings of Phoenix Tower	81	--	--
	-----	-----	-----
	\$ 845	\$ 1,397	\$ 620
	=====	=====	=====

Equity in earnings of investments in Sponsored REITs is derived from the Company's share of income following the commencement of syndication of Sponsored REITs. Following the commencement of syndication the Company exercises influence over, but does not control these entities, and investments are accounted for using the equity method.

Equity in earnings of Blue Lagoon is derived from the Company's preferred stock investment in the entity. In January 2004 the Company purchased 49.25 preferred shares or 8.22% of Blue Lagoon for \$4,248,000 (which represented \$4,925,000 at the offering price net of commissions of \$394,000 and loan fees of \$283,000 that were excluded). Blue Lagoon was one of the 2006 Target REITs that the Company acquired by merger on April 30, 2006 at which time the preferred stock investment was canceled and the merger was accounted for as a purchase, and the acquired assets and liabilities were recorded at their fair value.

Equity in earnings of Park Ten Development is derived from the Company's preferred stock investment in the entity. In September 2005 the Company acquired 8.5 preferred shares or 3.05% of Park Ten Development via a non-monetary exchange of land valued at \$850,000. The Sponsored REIT was syndicated and recently completed the process of constructing a commercial property on the land.

Equity in earnings of Phoenix Tower is derived from the Company's preferred stock investment in the entity. In September 2006 the Company purchased 48 preferred shares or 4.6% of the outstanding preferred shares of Phoenix Tower for \$4,116,000 (which represented \$4,800,000 at the offering price net of commissions of \$384,000 and fees of \$300,000 that were excluded).

F-20

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

5. Related Party Transactions (continued)

The following table includes distributions received from non-consolidated REITs:

(in thousands)	Year Ended December 31,		
	2006	2005	2004
	----	----	----
Distributions from Sponsored REITs	\$ 664	\$ 856	\$1,347
Distributions from of Blue Lagoon	75	361	235
Distributions from Park Ten Development	25	--	--
Distributions from Phoenix Tower	81	--	--
	-----	-----	-----
	\$ 845	\$1,217	\$1,582
	=====	=====	=====

Non-consolidated REITs



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

The Company has in the past acquired by merger entities similar to the Sponsored REITs, including on April 30, 2005, the four 2005 Target REITs, and on April 30, 2006, the five 2006 Target REITs. The Company's business model for growth includes the potential acquisition by merger in the future of Sponsored REITs. However, the Company has no legal or any other enforceable obligation to acquire or to offer to acquire any Sponsored REIT. In addition, any offer (and the related terms and conditions) that might be made in the future to acquire any Sponsored REIT would require the approval of the boards of directors of the Company and the Sponsored REIT and the approval of the shareholders of the Sponsored REIT.

The operating data below for 2006 includes operations of the 10 Sponsored REITs the Company held an interest in as of December 31, 2006 and five 2006 Target REITs from January through April 30, 2006. The five 2006 Target REITs were merged into the Company on April 30, 2006. The operating data for 2005 includes operations of the 13 Sponsored REITs the company held an interest in as of December 31, 2005 and four 2005 Target REITs from January through April 30, 2005. The four 2005 Target REITs were merged into the Company on April 30, 2005. The operating data for 2004 includes the operations of the 15 Sponsored REITs in which the Company held an interest at December 31, 2004.

Summarized financial information for the Sponsored REITs is as follows:

	December 31,		
	2006	2005	
(in thousands)			
Balance Sheet Data (unaudited):			
Real estate, net	\$ 612,835	\$ 403,161	
Other assets	87,383	82,163	
Total liabilities	(132,565)	(46,831)	
Shareholders equity	\$ 567,653	\$ 438,493	
For the Year Ended			
December 31,			
	2006	2005	2004
(in thousands)			
Operating Data (unaudited):			
Rental revenues	\$ 57,279	\$ 60,339	\$ 58,474
Other revenues	3,487	1,211	655
Operating and maintenance expenses	(28,736)	(24,742)	(20,335)
Depreciation and amortization	(12,875)	(12,531)	(10,597)
Interest expense	(14,159)	(7,691)	(13,316)
Net income	\$ 4,996	\$ 16,586	\$ 14,881

F-21

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

### 5. Related Party Transactions (continued)

#### Syndication fees and Transaction fees:

The Company provided syndication and real estate acquisition advisory services for Sponsored REITs. Syndication, development and transaction fees from non-consolidated entities amounted to approximately \$21,955,000, \$18,680,000, and \$27,672,000, for the years ended December 31, 2006, 2005 and 2004, respectively.

#### Management fees and interest income from loans:

Asset management fees range from 1% to 5% of collected rents and the applicable contracts are cancelable with 30 days' notice. Asset management fee income from non-consolidated entities amounted to approximately \$627,000, \$672,000, and \$539,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The Company is typically entitled to interest on funds advanced to Sponsored REITs. The Company recognized interest income of approximately \$1,456,000, \$1,135,000, and \$42,000 for the years ended December 31, 2006, 2005 and 2004, respectively, relating to these loans.

### 6. Bank Note Payable

The Company has a revolving line of credit agreement (the "Loan Agreement") with a group of banks providing for borrowings at the Company's election of up to \$150,000,000. Borrowings under the Loan Agreement bear interest at either the bank's base rate (8.25% at December 31, 2006) or at a LIBOR plus 125 basis points (6.57% at December 31, 2006), as defined. There was no balance outstanding at December 31, 2006 or 2005. The weighted average interest rate on amounts outstanding during the years ended December 31, 2006 and 2005 was approximately 6.39% and 5.35%, respectively.

The Loan Agreement includes restrictions on property liens and requires compliance with various financial covenants. Financial covenants include the maintenance of at least \$1,500,000 in operating cash accounts, a minimum unencumbered cash and liquid investments balance and tangible net worth; and compliance with various debt and operating income ratios, as defined in the Loan Agreement. The Company was in compliance with the Loan Agreement's financial covenants as of December 31, 2006 and 2005. Borrowings under the Loan Agreement mature on August 18, 2008.

### 7. Stockholders' Equity

#### Equity-Based Compensation

On May 20, 2002, the stockholders of the Company approved the 2002 Stock Incentive Plan (the "Plan"). The Plan is an equity-based incentive compensation plan, and provides for the grants of up to a maximum of 2,000,000 shares of the Company's common stock ("Awards"). All of the Company's employees, officers, directors, consultants and advisors are eligible to be granted awards. Awards under the Plan are made at the discretion of the Company's Board of Directors, and have no vesting requirements. Upon granting an Award, the Company will recognize compensation cost equal to the fair value of the Company's common stock, as determined by the Company's Board of Directors, on the date of the grant.

The Company did not issue any shares under the Plan in 2006. In March 2005 and 2004 the Company issued 1,750 and 9,824 shares to certain officers and employees under the Plan with an estimated value of \$31,000 and \$161,000, respectively. There was no equity-based compensation for the year ended December 31, 2003. Shares issued were fully vested on the date of issuance. Equity-based compensation charges of \$31,000 and \$161,000 are included in selling, general &

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

administrative expenses in the accompanying consolidated statements of income for the years ended December 31, 2005 and 2004.

F-22

### Franklin Street Properties Corp. Notes to the Consolidated Financial Statements

#### 7. Stockholders' Equity (continued)

A summary of shares available and granted under the plan and the related compensation costs is shown in the following table:

	Shares Available for Grant	Compensation Cost
	-----	-----
Shares approved for grant	2,000,000	\$ --
Shares granted 2002	(43,998)	604,000
	-----	-----
Balance, December 31, 2002 and 2003	1,956,002	604,000
Shares granted 2004	(9,824)	161,000
	-----	-----
Balance, December 31, 2004	1,946,178	765,000
Shares granted 2005	(1,750)	31,000
	-----	-----
Balance, December 31, 2005 & 2006	1,944,428	\$ 796,000
	=====	=====

On October 28, 2005, the Board of Directors of the Company authorized the repurchase of up to \$35 million over a two year period, of the Company's common stock from time to time on the open market or in privately negotiated transactions. The Company subsequently repurchased 731,000 shares of common stock during the fourth quarter of 2005 at an aggregate cost of \$13,992,000 at an average cost of \$19.14 per share. There were no repurchases during 2006.

#### Treasury Shares

At December 31, 2004 there were 575 Treasury shares, and on March 1, 2005, the Company issued the 575 shares to employees in connection with the Plan. On April 30, 2005, the Company redeemed 898 fractional shares in connection with the Merger for \$16,000. During 2005, the Company also repurchased 731,000 shares for \$13,992,000. During 2006 there were no repurchases or issuances. As a result, as of December 31, 2006 and 2005 there were 731,898 Treasury shares.

#### 8. Federal Income Tax Reporting

##### General

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company generally is entitled to a tax deduction for distributions paid to its shareholders, thereby effectively subjecting the distributed net income of the Company to taxation at the shareholder level only. The Company must comply with a variety of restrictions to maintain its status as a REIT. These restrictions include the type of income it can earn, the type of assets it can hold, the number of shareholders it can have and the concentration of their ownership, and the amount of the Company's taxable income that must be distributed annually.

One such restriction is that the Company generally cannot own more than 10% of

## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

the voting power or value of the securities of any one issuer unless the issuer is itself a REIT or a taxable REIT subsidiary ("TRS"). In the case of TRSs, the Company's ownership of securities in all TRSs generally cannot exceed 20% of the value of all of the Company's assets and, when considered together with other non-real estate assets, cannot exceed 25% of the value of all of the Company's assets. Effective January 1, 2002, a subsidiary of the Company, FSP Investments, became a TRS. As a result, FSP Investments operates as a taxable corporation under the Code and has accounted for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes. Taxes are provided when FSP Investments has net profits for both financial statement and income tax purposes.

Income taxes are recorded based on the future tax effects of the difference between the tax and financial reporting bases of the Company's assets and liabilities. In estimating future tax consequences, potential future events are considered except for potential changes in income tax law or in rates.

### Net operating losses

Section 382 of the Code restricts a corporation's ability to use net operating losses ("NOLs") to offset future taxable income following certain "ownership changes." Such an ownership change occurred with the June 2003 merger and accordingly a portion of the NOLs incurred by the Sponsored REITs available for use by the Company in any particular future taxable year will be limited. To the

F-23

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

### 8. Federal Income Tax Reporting (continued)

extent that the Company does not utilize the full amount of the annual NOLs limit, the unused amount may be carried forward to offset taxable income in future years. NOLs expire 20 years after the year in which they arise, and the last of the Company's NOLs will expire in 2023. A valuation allowance is provided for the full amount of the NOLs as the realization of any tax benefits from such NOLs is not assured. In 2005, the Company used \$2,595,000 of NOLs in connection with amending a prior year tax return. In 2006 the Company used \$3,722,000 of NOLs in connection with its 2005 tax return. The gross amount of NOLs available to the Company were \$10,953,000, \$8,813,000 and 7,918,000 as of December 31, 2006, 2005 and 2004, respectively.

### Tax Rates

The income tax expense reflected in the consolidated statement of income relates only to the TRS. The expense differs from the amounts computed by applying the Federal statutory rate to income before taxes as follows:

	For the years ended December 31,			
(Dollars in thousands)	2006	2005	2004	
Federal income tax expense at statutory rate	\$ 709    34.0%	\$ 356    34.0%	\$ 1,516	34.0%

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Increase (decrease) in taxes resulting from:						
State income taxes, net of federal impact	130	6.3%	66	6.3%	280	6.3%
Other	--	--	--	--	(71)	(1.6)
	-----	-----	-----	-----	-----	-----
Taxes on income	\$ 839	40.3%	\$ 422	40.3%	\$ 1,725	38.7%
	=====	=====	=====	=====	=====	=====

For the year ended December 31, 2004, "Other" consists of an adjustment to the statutory rate to better reflect the benefit of lower tax rates at lower levels of taxable income.

Taxes on income are a current tax expense. No deferred income taxes were provided as there were no material temporary differences between the financial reporting basis and the tax basis of the TRS.

At December 31, 2006 and 2005, the Company's net tax basis of its real estate assets is less than the amount set forth in the Company's consolidated balance sheets by \$94,754,000, and \$14,035,000, respectively.

Reconciliation Between GAAP Net Income and Taxable Income.

The following reconciles book net income to taxable income for the years ended December 31, 2006, 2005 and 2004.

(in thousands)	For the year ended December 31,		
	2006	2005	2004
	----	----	----
Net income per books	\$ 110,929	\$ 75,116	\$ 47,763
Adjustments to book income:			
Book depreciation and amortization	32,047	22,239	13,592
Tax depreciation and amortization	(18,697)	(14,447)	(11,449)
Like-kind exchange gain deferral	(45,840)	(14,351)	--
Tax basis less book basis of properties sold, net	7,773	4,747	--
Loss on property held for sale	4,849	--	--
Straight line rent adjustment, net	(1,305)	(1,814)	(860)
Deferred rent, net	85	(132)	55
Non-taxable distributions	(84)	(85)	--
Other, net	(562)	(815)	(611)
	-----	-----	-----
Taxable income	89,195	70,458	48,490
Less: Capital gains recognized	(28,738)	(22,068)	--
	-----	-----	-----
Taxable income subject to distribution requirement	\$ 60,457	\$ 48,390	\$ 48,490
	=====	=====	=====

F-24

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

8. Federal Income Tax Reporting (continued)

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Tax Components

The following summarizes the tax components of the Company's common distributions paid per share for the years ended December 31, 2006, 2005 and 2004:

	2006		2005		2004	
	Per Share	%	Per Share	%	Per Share	%
Ordinary income	\$ 0.80	63.73%	\$ 0.83	67.16%	\$ 1.01	81.48%
Qualified dividends	0.01	1.08%	--	--	0.03	2.79%
Capital gain (1)	0.43	35.19%	0.41	32.84%	--	--
Return of capital	--	--	--	--	0.20	15.73%
<b>Total</b>	<b>\$ 1.24</b>	<b>100%</b>	<b>\$ 1.24</b>	<b>100%</b>	<b>\$ 1.24</b>	<b>100%</b>

- (1) For 2006, the 35.19% consists of 26.50% and 8.69% taxed at 15% and 25% respectively. For 2005, the 32.84% capital gain consists of 10.86% and 21.98% taxed at 15% and 25%, respectively.

9. Commitments

The Company's commercial real estate operations include the leasing of office buildings and industrial properties subject to leases with terms greater than one year. The leases expire at various dates through 2015. The following is a schedule of approximate future minimum rental income on non-cancelable operating leases as of December 31, 2006:

(in thousands)	Year ended December 31,
2007	\$ 72,866
2008	68,585
2009	59,106
2010	44,996
2011	34,508
Thereafter (2012-2016)	87,195
	<b>\$ 367,256</b>

The Company leases its corporate office space under an operating lease that was amended in 2003 and has no renewal options. The lease includes a base annual rent and additional rent for the Company's share of taxes and operating costs. Future minimum lease payments are as follows:

(in thousands)	Year ended December 31,
2007	\$ 308
2008	182

Thereafter	--
	-----
	\$ 490
	=====

Rent expense was approximately \$301,000, \$273,000 and \$306,000 for the years ended December 31, 2006, 2005 and 2004, respectively, and is included in selling, general and administration expenses in the Consolidated Statements of Income.

F-25

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

10. Retirement Plan

In 2006, the Company established a 401(k) plan to cover eligible employees, which permits deferral of up to \$15,000 per year (indexed for inflation) into the 401(k) plan, subject to certain limitations imposed by the Internal Revenue Code. Employee's elective deferrals are immediately vested upon contribution to the 401(k) plan. The Company matches employee contributions to the 401(k) plan dollar for dollar up to 3% of each employee's annual compensation up to \$200,000. In addition, we may elect to make an annual discretionary profit-sharing contribution. The Company's total contribution under the 401(k) plan amounted to \$133,000 for the year ended December 31, 2006.

In 1999, the Company began a retirement savings plan for eligible employees, which was replaced by the 401(k) plan in 2006. Under the plan, the Company annually matched participant contributions up to the maximum allowed by tax regulations. The Company's total contribution under the plan amounted to approximately \$158,000 and \$160,000 for the years ended December 31, 2005 and 2004, respectively.

11. Discontinued Operations

During 2006 the Company sold six properties, each of which was sold at a gain. The Company also reached an agreement to sell another commercial property, located in Greenville, South Carolina, which sold on January 31, 2007 at a loss. In evaluating the Greenville, South Carolina property, the Company compared estimated future costs to upgrade and reposition the multi-tenant property and to lease up the building. The Company concluded that accepting the offer was the more prudent decision because the management time and oversight of such a project outweighed the potential future benefit.

Accordingly, as of December 31, 2006, each of the six properties sold and the property classified as held for sale are classified as discontinued operations on our financial statements. Income from discontinued operations of the seven properties was approximately \$5.5 million and \$12.7 million for the years ended December 31, 2006 and 2005, respectively. For the year ended December 31, 2006 the Company reported \$61.4 million as gain on sale of properties including a provision for loss on the property held for sale. For the year ended December 31, 2005 the Company reported \$30.5 million as net gains on sale of properties.

During the year ended December 31, 2006 gains on sales of properties and a provision for loss from assets held for sale were recognized and are summarized below:

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

(dollars in thousands)

Property Address -----	City/ State -----	Property Type ----	Date of Sale ----
22400 Westheimer Parkway	Katy, TX	Apartment	May 24, 2006
4995 Patrick Henry Drive	Santa Clara, CA	Office	May 31, 2006
12902 Federal Systems Park Drive	Fairfax, VA	Office	May 31, 2006
One Technology Drive	Peabody, MA	Industrial	August 9, 2006
2251 Corporate Park Drive	Herndon, VA	Office	November 16, 2006
451 Andover Street & 203 Turnpike Street	North Andover, MA	Office	December 21, 2006
Net Sales Proceeds and Gain on sales of real estate			
Provision for loss on property held for sale:			
33 & 37 Villa Road	Greenville, SC	Office	January 31, 2007

F-26

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

11. Discontinued Operations (continued)

During the year ended December 31, 2005 gains and losses on sales of the properties sold are summarized below:

(in Thousands)

Property Address -----	City/ State -----	Property Type ----	Date of Sale ----	Pr ---
81 Blue Ravine	Folsom, CA	Office	July 13, 2005	
7250 Perkins Road	Baton Rouge, LA	Apartment	September 19, 2005	
7130-7150 Columbia Gateway Dr	Columbia, MD	Office	September 20, 2005	
Park Ten Development (1)	Houston, TX	Land	September 29, 2005	
3919 Essex Lane	Houston, TX	Apartment	October 5, 2005	
4000 Essex Lane	Houston, TX	Apartment	October 5, 2005	
5751-5771 Copley Drive	San Diego, CA	Office	December 8, 2005	

- (1) On September 29, 2005, the Company recorded a non-monetary exchange gain of \$0.3 million from contribution of 2.9 acres of developable land contributed in exchange for 8.5 preferred shares (approximately 3.05%) of the Sponsored REIT, Park Ten Development. The appraised value of the land and market value of the stock acquired were used to estimate the sale



## Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

price, and the gain was recorded net of the Company's interest in Park Ten Development.

The operating results for the real estate assets sold or held for sale are summarized below.

(in thousands)	For the Years Ended December 31,		
	2006	2005	2004
Rental revenue	\$ 12,378	\$ 28,175	\$ 30,591
Rental operating expenses	(3,756)	(7,157)	(7,502)
Real estate taxes and insurance	(1,042)	(2,862)	(3,624)
Depreciation and amortization	(2,089)	(5,427)	(5,771)
Selling, general and administrative	--	(4)	--
Interest income	1	6	5
Net income from discontinued operations	\$ 5,492	\$ 12,731	\$ 13,699

### 12. Subsequent Events

On January 5, 2007 the Company borrowed approximately \$150 million or its entire availability under its Loan Agreement. The Company used the borrowed funds to make an interim mortgage loan for a property located in Illinois.

On January 19, 2007, the Board of Directors of the Company declared a cash distribution of \$0.31 per share of common stock payable on February 20, 2006 to stockholders of record on January 31, 2007.

On January 31, 2007, the Company completed the sale of a commercial building in Greenville, South Carolina and received proceeds of approximately \$5.8 million.

F-27

Franklin Street Properties Corp.  
Notes to the Consolidated Financial Statements

### 13. Selected unaudited quarterly information

Selected unaudited quarterly information is shown in the following table

	2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Revenue	\$ 25,450	\$ 27,231	\$ 28,011	\$ 34,500
Income from continuing operations	\$ 11,281	\$ 10,537	\$ 10,157	\$ 12,000
Income from discontinued operations	1,858	1,832	1,312	4,000
Gain (loss) on sale of properties	--	28,108	6,361	26,900

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Net income	\$ 13,139	\$ 40,477	\$ 17,830	\$ 39,4
Basic and diluted net income per share	\$ 0.22	\$ 0.60	\$ 0.25	\$ 0.
Weighted average number of shares outstanding	59,795	67,149	70,766	70,7

2005

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Revenue	\$ 16,229	\$ 18,145	\$ 22,810	\$ 22,3
Income from continuing operations	\$ 7,073	\$ 7,213	\$ 9,026	\$ 8,5
Income from discontinued operations	3,351	3,294	3,474	2,6
Gain (loss) on sale of properties	--	(1,055)	14,316	17,2
Net income	\$ 10,424	\$ 9,452	\$ 26,816	\$ 28,4
Basic and diluted net income per share	\$ 0.21	\$ 0.17	\$ 0.44	\$ 0.
Weighted average number of shares outstanding	49,630	56,815	60,526	60,2

F-28

SCHEDULE III

FRANKLIN STREET PROPERTIES CORP.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2006

Description	Encumbrances (1)	Initial Cost		Costs Capitalized (Disposals) Subsequent to Acquisition
		Land	Buildings Improvements and Equipment	
Commercial Properties:				
Park Seneca, Charlotte, NC	--	1,815	7,917	360
Hillview Center, Milpitas, CA	--	2,203	2,813	7
Southfield Centre, Southfield, MI	--	4,344	11,455	1,632

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Bollman Place, Savage, MD	--	1,585	4,121	416
Austin N.W., Austin, TX	--	708	10,494	1,161
10 Lyberty Way, Westford, MA	--	1,315	8,862	404
Forest Park, Charlotte, NC	--	1,559	5,672	15
Centennial Center, Colorado Springs, CO	--	1,549	11,877	818
Meadow Point, Chantilly, VA	--	2,634	18,911	0
Timberlake, Chesterfield, MO	--	2,984	38,661	1,094
Northwest Point, Elk Grove Village, IL	--	2,914	26,295	7,188
Timberlake East, Chesterfield, MO	--	2,626	17,608	1,005
Park Ten, Houston, TX	--	1,061	21,303	(447)
Goldentop Technology Center, San Diego, CA	--	5,356	17,049	20
Federal Way, Federal Way, WA	--	2,518	13,212	1
Addison, Addison, TX	--	4,325	48,040	918
Collins, Richardson, TX	--	4,000	42,598	1,122
Montague, San Jose, CA	--	10,250	5,254	16
Royal Ridge, Alpharetta, GA	--	2,000	22,068	371
Greenwood, Englewood, CO	--	3,100	30,201	0
River Crossing, Indianapolis, IN	--	3,000	36,926	829
Willow Bend, Plano, TX	--	3,800	14,842	2
Innsbrook, Glenn Allen, VA	--	5,000	40,216	1,197
380 Interlocken, Bloomfield, CO	--	8,275	34,462	361
Blue Lagoon, Miami, FL	--	6,306	46,124	0
Eldridge Green, Houston, TX	--	3,900	43,791	24
Liberty Plaza, Addison, TX	--	4,374	21,146	884
One Overton, Atlanta, GA	--	3,900	77,229	621
FSP 390 Interlocken, Bloomfield, CO	--	7,013	37,751	10
	----	-----	-----	-----
Balance - Real Estate	--	104,414	716,898	20,029
Assets held for sale	--	1,449	9,839	1,811
	----	-----	-----	-----
Balance - End of Year	--	\$105,863	\$726,737	\$ 21,840
	=====	=====	=====	=====

Description	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Depreciable Life Years	Ac
	-----	-----	-----	-----
Commercial Properties:				
Park Seneca, Charlotte, NC	1,802	8,290	5-39	
Hillview Center, Milpitas, CA	560	4,463	5-39	
Southfield Centre, Southfield, MI	2,281	15,150	5-39	
Bollman Place, Savage, MD	751	5,371	5-39	
Austin N.W., Austin, TX	2,093	10,270	5-39	
10 Lyberty Way, Westford, MA	1,549	9,032	5-39	
Forest Park, Charlotte, NC	521	6,725	5-39	
Centennial Center, Colorado Springs, CO	1,269	12,975	5-39	
Meadow Point, Chantilly, VA	1,738	19,807	5-39	
Timberlake, Chesterfield, MO	3,595	39,144	5-39	
Northwest Point, Elk Grove Village, IL	2,424	33,973	5-39	
Timberlake East, Chesterfield, MO	1,687	19,552	5-39	
Park Ten, Houston, TX	1,969	19,948	5-39	
Goldentop Technology Center, San Diego, CA	1,568	20,857	5-39	
Federal Way, Federal Way, WA	1,214	14,517	5-39	
Addison, Addison, TX	2,317	50,966	5-39	

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Collins, Richardson, TX	1,830	45,890	5-39
Montague, San Jose, CA	225	15,295	5-39
Royal Ridge, Alpharetta, GA	995	23,444	5-39
Greenwood, Englewood, CO	1,419	31,882	5-39
River Crossing, Indianapolis, IN	1,450	39,305	5-39
Willow Bend, Plano, TX	254	18,390	5-39
Innsbrook, Glenn Allen, VA	687	45,726	5-39
380 Interlocken, Bloomfield, CO	598	42,500	5-39
Blue Lagoon, Miami, FL	788	51,642	5-39
Eldridge Green, Houston, TX	749	46,966	5-39
Liberty Plaza, Addison, TX	510	25,894	5-39
One Overton, Atlanta, GA	1,008	80,742	5-39
FSP 390 Interlocken, Bloomfield, CO	0	44,774	5-39
	-----	-----	-----
Balance - Real Estate	37,851	803,490	
Assets held for sale	7,269	5,830	5-39
	-----	-----	
Balance - End of Year	\$45,120	\$809,320	
	=====	=====	

- (1) There are no encumbrances on the above properties.
- (2) The aggregate cost for Federal Income Tax purposes is \$804,995.
- (3) Original date of acquisition by Sponsored Entity.

F-29

The following table summarizes the changes in the Company's real estate investments and accumulated depreciation:

(in thousands)	December 31,		
	2006	2005	2004
=====			
Real estate investments, at cost:			
Balance, beginning of year	595,194	476,982	475,368
Acquisition by merger	206,715	138,535	--
Acquisitions	151,804	73,227	--
Improvements	15,812	2,692	1,614
Assets held for sale	(13,099)	(127,976)	(222,475)
Dispositions	(115,085)	(96,242)	--
	-----	-----	-----
Balance - Real Estate	841,341	467,218	254,507
Assets held for sale	13,099	127,976	222,475
	-----	-----	-----
Balance, end of year	854,440	595,194	476,982
=====			
Accumulated depreciation:			
Balance, beginning of year	35,966	37,227	25,836
Depreciation	17,365	13,822	11,391
Assets held for sale	(2,667)	(13,684)	(23,918)
Dispositions	(12,813)	(15,083)	--
	-----	-----	-----
Balance - Accumulated Depreciation	37,851	22,282	13,309
Assets held for sale	7,269	13,684	23,918
	-----	-----	-----

Edgar Filing: FRANKLIN STREET PROPERTIES CORP /MA/ - Form 10-K

Balance, end of year	45,120	35,966	37,227
	=====	=====	=====

F-30