

FRANKLIN STREET PROPERTIES CORP /MA/  
Form 10-Q  
August 04, 2009

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

FORM 10 - Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2009.

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-32470

Franklin Street Properties Corp.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of incorporation  
or organization)

04-3578653  
(I.R.S. Employer Identification No.)

401 Edgewater Place, Suite 200  
Wakefield, MA 01880-6210  
(Address of principal executive offices)(Zip Code)

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES

NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

FORM 10-Q, Continued

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES

NO

The number of shares of common stock outstanding as of July 31, 2009 was 70,480,705.

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Franklin Street Properties Corp.

Form 10-Q

Quarterly Report  
June 30, 2009

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

Franklin Street Properties Corp.  
Condensed Consolidated Balance Sheets  
(Unaudited)

(in thousands, except share and par value amounts)	June 30, 2009	December 31, 2008
Assets:		
Real estate assets:		
Land	\$ 114,677	\$ 107,153
Buildings and improvements	840,605	810,732
Fixtures and equipment	310	299
	955,592	918,184
Less accumulated depreciation	86,035	74,126
Real estate assets, net	869,557	844,058
Acquired real estate leases, less accumulated amortization		
of \$32,930 and \$29,200, respectively	38,996	28,518
Investment in non-consolidated REITs	94,579	83,046
Assets held for syndication, net	-	13,254
Cash and cash equivalents	24,542	29,244
Restricted cash	335	336
Tenant rent receivables, less allowance for doubtful accounts		
of \$620 and \$509, respectively	720	1,329
Straight-line rent receivable, less allowance for doubtful accounts		
of \$100 and \$261, respectively	9,219	8,816
Prepaid expenses	2,267	2,206
Related party mortgage loan receivable	12,115	1,125
Other assets	1,854	2,406
Office computers and furniture, net of accumulated depreciation		
of \$1,160 and \$1,108, respectively	417	281
Deferred leasing commissions, net of accumulated amortization		
of \$4,221, and \$3,416, respectively	10,895	10,814
Total assets	\$ 1,065,496	\$ 1,025,433
Liabilities and Stockholders' Equity:		
Liabilities:		
Bank note payable	\$ 124,038	\$ 67,468
Term loan payable	75,000	75,000
Accounts payable and accrued expenses	21,252	22,297
Accrued compensation	500	1,654
Tenant security deposits	1,765	1,874
Other liabilities: derivative termination value	2,394	3,099

Acquired unfavorable real estate leases, less accumulated amortization of \$2,266, and \$1,779, respectively	4,954	5,044
Total liabilities	229,903	176,436

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, 70,480,705 and 70,480,705 shares issued and outstanding, respectively	7	7
Additional paid-in capital	889,019	889,019
Accumulated other comprehensive loss	(2,394)	(3,099)
Accumulated distributions in excess of accumulated earnings	(51,039)	(36,930)
Total stockholders' equity	835,593	848,997
Total liabilities and stockholders' equity	\$ 1,065,496	\$ 1,025,433

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

Franklin Street Properties Corp.  
Condensed Consolidated Statements of Income  
(Unaudited)

(in thousands, except per share amounts)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenue:</b>				
Rental	\$ 29,254	\$ 27,700	\$ 59,072	\$ 54,356
<b>Related party revenue:</b>				
Syndication fees	29	3,257	39	3,462
Transaction fees	514	3,138	542	3,306
Management fees and interest income from loans	317	423	862	984
Other	18	19	36	39
Total revenue	30,132	34,537	60,551	62,147
<b>Expenses:</b>				
Real estate operating expenses	7,144	7,116	14,424	13,815
Real estate taxes and insurance	4,686	4,505	9,515	8,784
Depreciation and amortization	10,225	7,591	18,139	14,950
Selling, general and administrative	2,127	2,621	4,135	4,630
Commissions	40	1,654	170	1,812
Interest	1,599	1,051	3,176	2,243
Total expenses	25,821	24,538	49,559	46,234
Income before interest income, equity in earnings of non-consolidated REITs and taxes	4,311	9,999	10,992	15,913
Interest income	36	176	72	479
Equity in earnings of non-consolidated REITs	443	694	1,235	1,487
Income before taxes	4,790	10,869	12,299	17,879
Income tax expense (benefit)	(75)	335	(374)	(41)
Net income	\$ 4,865	\$ 10,534	\$ 12,673	\$ 17,920
Weighted average number of shares outstanding, basic and diluted	70,481	70,481	70,481	70,481
Net income per share, basic and diluted	\$ 0.07	\$ 0.15	\$ 0.18	\$ 0.25

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





Franklin Street Properties Corp.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

(in thousands)	2009	For the Six Months Ended June 30,	2008
Cash flows from operating activities:			
Net income	\$ 12,673	\$	17,920
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	18,276		14,973
Amortization of above market lease	1,780		2,259
Equity in earnings of non-consolidated REITs	(1,235)		(1,487)
Distributions from non-consolidated REITs	3,137		2,277
Increase in bad debt reserve	111		79
Changes in operating assets and liabilities:			
Restricted cash	1		1
Tenant rent receivables, net	498		404
Straight-line rents, net	(444)		(507)
Prepaid expenses and other assets, net	(943)		160
Accounts payable, accrued expenses	482		(2,002)
Accrued compensation	(1,154)		281
Tenant security deposits	(109)		(64)
Payment of deferred leasing commissions	(1,557)		(2,131)
Net cash provided by operating activities	31,516		32,163
Cash flows from investing activities:			
Purchase of real estate assets and office computers and furniture, capitalized merger costs	(56,135)		(36,970)
Changes in deposits on real estate assets	1,300		-
Investment in non-consolidated REITs	(13,198)		(10)
Investment in related party mortgage loan receivable	(10,990)		(1,000)
Investment in assets held for syndication	13,017		11,698
Net cash used in investing activities	(66,006)		(26,282)
Cash flows from financing activities:			
Distributions to stockholders	(26,782)		(43,698)
Borrowings under bank note payable	56,570		25,245
Deferred financing costs	-		(30)
Net cash provided by (used in) financing activities	29,788		(18,483)
Net decrease in cash and cash equivalents	(4,702)		(12,602)
Cash and cash equivalents, beginning of period	29,244		46,988
Cash and cash equivalents, end of period	\$ 24,542	\$	34,386
Non-cash investing and financing activities:			
Accrued costs for purchase of real estate assets	\$ 1,679	\$	2,027
Investment in non-consolidated REITs converted to real estate assets	\$ -	\$	1,162

and acquired real estate leases in conjunction with  
merger

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

Franklin Street Properties Corp.  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)

(in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	\$ 4,865	\$ 10,534	\$ 12,673	\$ 17,920
Other comprehensive income:				
Unrealized gain on derivative financial instruments	686	-	705	-
Total other comprehensive income	686	-	705	-
Comprehensive income	\$ 5,551	\$ 10,534	\$ 13,378	\$ 17,920

Franklin Street Properties Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. Organization, Properties, Basis of Presentation, Financial Instruments and Recent Accounting Standards

Organization

Franklin Street Properties Corp. (“FSP Corp.” or the “Company”) holds, directly and indirectly, 100% of the interest in FSP Investments LLC, FSP Property Management LLC, FSP Holdings LLC and FSP Protective TRS Corp. The Company also has a non-controlling common stock interest in twelve corporations organized to operate as real estate investment trusts (“REITs”) and a non-controlling preferred stock interest in three of those REITs.

The Company operates in two business segments: real estate operations and investment banking/investment services. FSP Investments LLC provides real estate investment and broker/dealer services. FSP Investments LLC's 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 Investments LLC is a registered broker/dealer with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority, or FINRA. FSP Property Management LLC provides asset management and property management services for the Sponsored REITs.

The Company owns and operates a portfolio of real estate, which consisted of 31 properties as of June 30, 2009. From time-to-time the Company may acquire real estate or invest in real estate by purchasing shares of preferred stock offered in syndications of Sponsored REITs. The Company may also pursue, on a selective basis, the sale of its properties in order to take advantage of the value creation and demand for its properties, or for geographic or property specific reasons.

On May 15, 2008, the Company acquired one of its Sponsored REITs, FSP Park Ten Development Corp. (“Park Ten Development”) by merging a wholly-owned subsidiary of the Company with and into Park Ten Development for a total purchase price of approximately \$35.4 million. The holders of preferred stock in Park Ten Development received cash consideration of approximately \$127,290 per share. The merger was accounted for as a purchase and the acquired assets and liabilities were recorded at their fair value.

Properties

The following table summarizes the Company’s investment in real estate assets, excluding assets held for syndication and assets held for sale:

	2009	As of June 30, 2008
Commercial real estate:		
Number of properties	31	27
Rentable square feet	5,682,011	5,153,396

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company include all the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009 or for any other period.

Franklin Street Properties Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. Organization, Properties, Basis of Presentation, Financial Instruments and Recent Accounting Standards  
(continued)

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.

Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, “Fair Value Measurements”, and in February 2008 amended SFAS No. 157 with FASB Staff Position SFAS 157-1 (“FSP FAS 157-1”), “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under FSP FAS 157-1” and was amended later with FASB Staff Position SFAS 157-2, “Effective Date of FASB Statement No. 157” (“FSP FAS 157-2”). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and provides for expanded disclosure about fair value measurements. SFAS 157 is applied prospectively, to all other accounting pronouncements that require or permit fair value measurements. FSP FAS 157-1 amends SFAS 157 to exclude from the scope of SFAS 157 certain leasing transactions accounted for under Statement of Financial Accounting Standards No. 13, “Accounting for Leases” for purposes of measurements and classifications. SFAS No. 157 and FSP FAS 157-1 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 and FSP FAS 157-1 did not have a material impact on the Company’s financial position, operations or cash flow. FSP FAS 157-2 amends SFAS 157 to defer the effective date of SFAS 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (R), “Business Combinations”, which establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill acquired in a business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51” (SFAS No. 160). SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also amends certain of ARB No. 51’s consolidation procedures for consistency with the requirements of SFAS No. 141R. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.” SFAS No. 161 requires entities to provide greater transparency about (a)

how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the impact of SFAS No. 162 on the Company's consolidated financial statements.



Franklin Street Properties Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

1. Organization, Properties, Basis of Presentation, Financial Instruments and Recent Accounting Standards  
(continued)

Recent Accounting Standards

On May 28, 2009, the FASB issued SFAS No. 165, “Subsequent Events”. This Statement is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This Statement is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

On June 12, 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” a revision to FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. SFAS No. 167 is effective for fiscal years and interim periods within those fiscal years beginning on or after November 15, 2009. The Company is currently evaluating the impact of SFAS No. 167 on the Company’s consolidated financial statements.

On July 1, 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification™ (Codification) and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162”, which will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company is currently evaluating the impact of SFAS No. 168 on the Company’s consolidated financial statements.

2. Investment Banking/Investment Services Activity

During the six months ended June 30, 2009, the Company sold on a best efforts basis, through private placements, preferred stock in the following Sponsored REITs:

Sponsored REIT	Property Location	Gross Proceeds (1) (in thousands)
FSP Grand Boulevard Corp.	Kansas City, MO	\$ 350 200

FSP 385 Interlocken Broomfield,  
Development Corp. CO

Total	\$	550
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(1) The syndication of FSP Grand Boulevard Corp. (“Grand Boulevard”) was completed on May 29, 2009. The syndication of FSP 385 Interlocken Development Corp. (“385 Interlocken”), which commenced in May 2008, was not complete at June 30, 2009.

### 3. Related Party Transactions and Investments in Non-Consolidated Entities

#### Investment in Sponsored REITs:

At June 30, 2009, the Company held an interest in twelve Sponsored REITs. Eleven were fully syndicated and the Company no longer derives economic benefits or risks from the common stock interest that is retained in them. The Company holds a non-controlling preferred stock investment in three of these Sponsored REITs, FSP Phoenix Tower Corp. (“Phoenix Tower”), FSP 303 East Wacker Drive Corp. (“East Wacker”) and Grand Boulevard, from which it continues to derive economic benefits and risks. One entity was not fully syndicated at June 30, 2009, which is 385 Interlocken.

Franklin Street Properties Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

3. Related Party Transactions and Investments in Non-consolidated Entities (continued)

Equity in earnings of investment in non-consolidated REITs:

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

(in thousands)	Six Months Ended	
	2009	2008
Equity in earnings of Sponsored REITs	\$ 141	\$ 103
Equity in earnings of Park Ten Development	-	9
Equity in earnings of Phoenix Tower	1	14
Equity in earnings of East Wacker	1,064	1,361
Equity in earnings of Grand Boulevard	29	-
	\$ 1,235	\$ 1,487

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 Park Ten Development was 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 the authorized preferred shares of Park Ten Development via a non-monetary exchange of land valued at \$850,000. The Company acquired Park Ten Development by merger on May 15, 2008, which merger was accounted for as a purchase, and the acquired assets and liabilities were recorded at their fair value.

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).

Equity in earnings of East Wacker is derived from the Company's preferred stock investment in the entity. In December 2007, the Company purchased 965.75 preferred shares or 43.7% of the outstanding preferred shares of East Wacker for \$82,813,000 (which represented \$96,575,000 at the offering price net of commissions of \$7,726,000, loan fees of \$5,553,000 and acquisition fees of \$483,000 that were excluded).

Equity in earnings of Grand Boulevard is derived from the Company's preferred stock investment in the entity. In May 2009, the Company purchased 175.5 preferred shares or 27.0% of the outstanding preferred shares of Grand

Boulevard for \$15,049,000 (which represented \$17,550,000 at the offering price net of commissions of \$1,404,000, loan fees of \$1,009,000 and acquisition fees of \$88,000 that were excluded).

The Company recorded distributions declared of \$3,137,000 and \$2,277,000 from non-consolidated REITs during the six months ended June 30, 2009 and 2008, respectively.

Non-consolidated REITs:

The Company has in the past acquired by merger entities similar to the Sponsored REITs. On March 19, 2008, the Company entered into an agreement and plan of merger to acquire Park Ten Development by merger for a total purchase price of approximately \$35.4 million. Upon completion of the acquisition on May 15, 2008, the holders of preferred stock in Park Ten Development received cash consideration of approximately \$127,290 per share. The acquisition was effected by merging a wholly-owned subsidiary of the Company with and into Park Ten Development. Consummation of the acquisition required the approval of Park Ten Development's stockholders. The Company's business model for growth includes the potential acquisition by merger in the future of Sponsored REITs. 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.

Franklin Street Properties Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

3. Related Party Transactions and Investments in Non-consolidated Entities (continued)

The operating data below for 2009 includes operations of the twelve Sponsored REITs the Company held an interest in as of June 30, 2009. The operating data for 2008 includes operations of the twelve Sponsored REITs the Company held an interest in as of June 30, 2008.

At June 30, 2009, December 31, 2008 and June 30, 2008, the Company had ownership interests in twelve Sponsored REITs. Summarized financial information for these Sponsored REITs is as follows:

(in thousands)	June 30, 2009	December 31, 2008
Balance Sheet Data		
(unaudited):		
Real estate, net	\$ 668,145	\$ 683,218
Other assets	98,349	114,015
Total liabilities	(180,030)	(189,435)
Shareholders' equity	\$ 586,464	\$ 607,798
	For the Six Months Ended June 30,	
(in thousands)	2009	2008
Operating Data (unaudited):		
Rental revenues	\$ 48,812	\$ 51,031
Other revenues	251	1,046
Operating and maintenance expenses	(25,248)	(25,412)
Depreciation and amortization	(12,090)	(12,104)
Interest expense	(4,160)	(5,725)
Net income	\$ 7,565	\$ 8,836

Syndication fees and Transaction fees:

The Company provides syndication and real estate acquisition advisory services for Sponsored REITs. Syndication, development and transaction fees from non-consolidated entities amounted to approximately \$581,000 and \$6,768,000 for the six months ended June 30, 2009 and 2008, 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 \$448,000 and \$473,000 for the six months ended June 30, 2009 and 2008, respectively.

The Company typically makes interim mortgage loans to Sponsored REITs that enable Sponsored REITs to acquire their respective properties prior to the consummation of the offerings of their equity interests. The interim mortgage loans are subsequently repaid out of offering proceeds. As of June 30, 2009, there were no interim mortgage loans outstanding. From time-to-time the Company also makes secured loans to Sponsored REITs for the purpose of funding construction costs, capital expenditures, leasing costs and for other purposes (the "Sponsored REIT Loans"). The Company is typically entitled to interest on the funds that it advances to make interim mortgage loans and the Sponsored REIT Loans.

Franklin Street Properties Corp.  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

## 3. Related Party Transactions and Investments in Non-consolidated Entities (continued)

## Sponsored REIT Loans

Since December 2007, the Company has provided revolving lines of credit to five Sponsored REITs, or to wholly-owned subsidiaries of those Sponsored REITs, and a construction loan to one wholly-owned subsidiary of another Sponsored REIT. Each of the Sponsored REIT Loans is secured by a mortgage on the underlying property and has a term of approximately three years. Advances under each of the Sponsored REIT Loans bear interest at a rate equal to the 30-day LIBOR rate plus an agreed upon amount of basis points and most advances also require a 50 basis point draw fee. The Company also received a \$210,000 loan commitment fee at the time of the closing of the construction loan. The Company anticipates that any advances made under the Sponsored REIT Loans will be repaid at their maturity or earlier from long term financing of the underlying properties, cash flows of the underlying properties or some other capital events.

The following is a summary of the Sponsored REIT Loans outstanding as of June 30, 2009:

(in 000's)							
Sponsored REIT	Maturity Date	Maximum Amount of Loan	Amount Drawn at 30-Jun-09	Interest Rate (1)	Draw Fee (2)	Rate in Effect at 30-Jun-09	
Revolving lines of credit							
FSP Highland Place I Corp.	31-Dec-10	\$ 5,500	\$ 1,125	L+2%	n/a	2.32%	
FSP Satellite Place Corp.	31-Mar-12	5,500	479	L+3%	0.5%	3.32%	
FSP 1441 Main Street Corp.(a)	31-Mar-12	10,800	-	L+3%	0.5%		
FSP 505 Waterford Corp.	30-Nov-11	7,000	-	L+3%	0.5%		
FSP Phoenix Tower Corp. (b)	30-Nov-11	15,000	3,600	L+3%	0.5%	3.32%	
Construction loan							
FSP 385 Interlocken Development Corp. (c)	30-Apr-12	42,000	6,911	L+3%	n/a	3.32%	
		\$ 85,800	\$ 12,115				

(1) The interest rate is 30-Day LIBOR rate plus the additional rate indicated

(2) The draw fee is a percentage of each new advance, and is paid at the time of each new draw

(a) The Borrower is FSP 1441 Main Street LLC, a wholly-owned subsidiary

(b) The Borrower is FSP Phoenix Tower Limited Partnership, a wholly-owned subsidiary

(c) The Borrower is FSP 385 Interlocken LLC, a wholly-owned subsidiary

The Company recognized interest income and fees from the Sponsored REIT Loans of approximately \$414,000 and \$510,000 for the six months ended June 30, 2009 and 2008, respectively.

4. Bank note payable and term note payable

As of June 30, 2009, the Company has a bank note payable, which is an unsecured revolving line of credit (the “Revolver”) for advances up to \$250 million that matures on August 11, 2011, and a term note payable, which is an unsecured term loan (the “Term Loan”) of \$75 million that matures in October 2011 with two one-year extensions available at the Company’s election. The Revolver and the Term Loan are with a group of banks.

The Revolver and Term Loan include restrictions on property liens and require 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



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4. Bank note payable and term note payable (continued)

liquid investments balance and tangible net worth, limitations on permitted secured debt and compliance with various debt and operating income ratios, as defined in the loan agreement. The Company was in compliance with the Revolver and Term Loan financial covenants as of June 30, 2009 and the Revolver at June 30, 2008.

Revolver

The Company's Revolver is an unsecured revolving line of credit with a group of banks that provides for borrowings at our election of up to \$250,000,000. The Revolver matures on August 11, 2011. Borrowings under the Revolver bear interest at either the bank's prime rate (3.25% at June 30, 2009) or a rate equal to LIBOR plus 100 basis points (1.31% at June 30, 2009). There were borrowings of \$124,038,000 and \$67,468,000 at the LIBOR plus 100 basis point rate at a weighted average rate of 1.32% and 2.39% outstanding under the Revolver at June 30, 2009 and December 31, 2008, respectively. The weighted average interest rate on amounts outstanding during the six months ended June 30, 2009 and 2008 was approximately 1.46% and 4.15%, respectively; and for the year ended December 31, 2008 was approximately 3.61%.

The Company has drawn on the Revolver and intends to draw on the Revolver in the future for a variety of corporate purposes, including the funding of interim mortgage loans to Sponsored REITs and the acquisition of properties that it acquires directly for its portfolio.

The Company typically requires mortgage loans to Sponsored REITs to be secured by a first mortgage against the real property owned by the Sponsored REIT. The Company makes 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. The Company also may make secured loans to Sponsored REITs for the purpose of funding construction costs, capital expenditures, leasing costs or for other purposes that the Company anticipates would be repaid at their maturity or earlier from long term financings of the underlying properties, cash flows of the underlying properties or some other capital events.

Term Loan

The Company also has a \$75 million unsecured Term Loan with three banks. Proceeds from the Term Loan were used to reduce the outstanding principal balance on the Revolver. The Term Loan has an initial three-year term that matures on October 15, 2011. In addition, the Company has the right to extend the Term Loan's initial maturity date for up to two successive one-year periods, or until October 15, 2013 if both extensions are exercised. The Term Loan has an interest rate option equal to LIBOR (subject to a 2% floor) plus 200 basis points and a requirement that the Company fix the interest rate for the initial three-year term of the Term Loan pursuant to an interest rate swap agreement which the Company did at an interest rate of 5.84% per annum.

5. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of Company 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 June 30, 2009 and 2008.

6. Financial Instruments: Derivatives and Hedging

On October 15, 2008, the Company fixed the interest rate for the initial three-year term of the Term Loan at 5.84% per annum pursuant to an interest rate swap agreement. The variable rate that was fixed under the interest rate swap agreement is described in Note 4.

In accordance with SFAS No. 133 the interest swap agreement qualifies as a cash flow hedge and has been recognized on the condensed consolidated balance sheets at fair value. If a derivative qualifies as a hedge under SFAS 133, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. Application of SFAS No. 133 may increase or decrease reported net income and stockholders' equity prospectively, depending on future levels of interest rates and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows.

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6. Financial Instruments: Derivatives and Hedging (continued)

The following table summarizes the notional and fair value of our derivative financial instrument at June 30, 2009. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks (dollars in thousands).

	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
Interest Rate Swap	\$ 75,000	5.840%	10/2008	10/2011	\$ (2,394)

On June 30, 2009, the derivative instrument was reported as an obligation at its fair value of approximately \$2.4 million. This is included in other liabilities: derivative termination value on the condensed consolidated balance sheet at June 30, 2009. Offsetting adjustments are represented as deferred gains or losses in accumulated other comprehensive income of \$2.4 million. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified into earnings as a reduction to interest expense in the same periods in which the hedged interest payments affect earnings. We estimate that approximately \$1.0 million of the current balance held in accumulated other comprehensive income will be reclassified into earnings within the next 12 months. We are hedging exposure to variability in future cash flows for forecasted transactions in addition to anticipated future interest payments on existing debt.

Fair Value Measurements

The Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “Fair Value Measurements”, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Financial assets and liabilities recorded on the condensed consolidated balance sheets at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity’s own assumptions, as there is little, if any, related market activity or information. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. SFAS 157 was applied to the Company’s outstanding derivative, and Level 2 inputs were used to value the interest rate swap.

7. Business Segments

The Company operates in two business segments: real estate operations (including real estate leasing, making interim acquisition loans and other financing and asset/property management) including discontinued operations and investment banking/investment services (including real estate acquisition, development 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” in Note 2 to the Company’s consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008. The Company’s operations are located in the United States of America.

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## 7. Business Segments (continued)

The Company evaluates the performance of its reportable segments based on Funds From Operations (“FFO”) as management believes that FFO represents the most accurate measure of the reportable segment’s activity and is the basis for distributions paid to equity holders. The Company defines FFO as net income (determined in accordance with GAAP), excluding gains (or losses) from sales of property and acquisition costs of newly acquired properties that are not capitalized, plus depreciation and amortization, and after adjustments to exclude non-cash income (or losses) from non-consolidated or Sponsored REITs, plus distributions received from non-consolidated or Sponsored REITs.

FFO 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 this term in a different manner. We believe that in order to facilitate a clear understanding of the results of the Company, FFO 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 FFO by business segment for the three and six months ended June 30, 2009 and 2008 are shown in the following tables:

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
Three Months Ended March 31, 2009			
Net Income (loss)	\$ 8,586	\$ (778)	\$ 7,808
Equity in income of non-consolidated REITs	(792)	-	(792)
Distributions from non-consolidated REITs	1,615	-	1,615
Depreciation and amortization	8,680	27	8,707
Funds From Operations	\$ 18,089	\$ (751)	\$ 17,338
Three Months Ended June 30, 2009			
Net Income (loss)	\$ 5,212	\$ (347)	\$ 4,865
Equity in income of non-consolidated REITs	(443)	-	(443)
Distributions from non-consolidated REITs	1,523	-	1,523
Acquisition costs	248	-	248
Depreciation and amortization	11,191	25	11,216
Funds From Operations	\$ 17,731	\$ (322)	\$ 17,409
Six Months Ended June 30, 2009			
Net Income (loss)	\$ 13,798	\$ (1,125)	\$ 12,673
Equity in income of non-consolidated REITs	(1,235)	-	(1,235)
Distributions from non-consolidated REITs	3,138	-	3,138

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Acquisition costs	248	-	248
Depreciation and amortization	19,871	52	19,923
Funds From Operations	\$ 35,820	\$ (1,073)	\$ 34,747

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## 7. Business Segments (continued)

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
Three Months Ended March 31, 2008			
Net Income (loss)	\$ 7,874	\$ (488)	\$ 7,386
Equity in income of non-consolidated REITs	(793)	-	(793)
Distributions from non-consolidated REITs	546	-	546
Depreciation and amortization	8,464	34	8,498
<b>Funds From Operations</b>	<b>\$ 16,091</b>	<b>\$ (454)</b>	<b>\$ 15,637</b>
Three Months Ended June 30, 2008			
Net Income	\$ 7,182	\$ 3,352	\$ 10,534
Equity in income of non-consolidated REITs	(694)	-	(694)
Distributions from non-consolidated REITs	1,731	-	1,731
Depreciation and amortization	8,677	35	8,712
<b>Funds From Operations</b>	<b>\$ 16,896</b>	<b>\$ 3,387</b>	<b>\$ 20,283</b>
Six Months Ended June 30, 2008			
Net Income	\$ 15,056	\$ 2,864	\$ 17,920
Equity in income of non-consolidated REITs	(1,487)	-	(1,487)
Distributions from non-consolidated REITs	2,277	-	2,277
Depreciation and amortization	17,141	69	17,210
<b>Funds From Operations</b>	<b>\$ 32,987</b>	<b>\$ 2,933</b>	<b>\$ 35,920</b>

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## 7. Business Segments (continued)

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

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
Three Months Ended June 30, 2009			
Revenue	\$ 29,588	\$ 542	\$ 30,130
Interest income	35	1	36
Interest expense	1,598	-	1,598
Capital expenditures	939	88	1,027
Six Months Ended June 30, 2009			
Revenue	\$ 59,970	\$ 581	\$ 60,551
Interest income	68	3	71
Interest expense	3,176	-	3,176
Investment in non-consolidated REITs	94,579	-	94,579
Capital expenditures	2,678	189	2,867
Identifiable assets as of June 30, 2009	\$ 1,061,856	\$ 3,640	\$ 1,065,496
Three Months Ended June 30, 2008			
Revenue	\$ 28,142	\$ 6,395	\$ 34,537
Interest income	170	6	176
Interest expense	1,051	-	1,051
Capital expenditures	2,245	-	2,245
Six Months Ended June 30, 2008			
Revenue	\$ 55,379	\$ 6,768	\$ 62,147
Interest income	461	18	479
Interest expense	2,243	-	2,243
Investment in non-consolidated REITs	84,609	-	84,609
Capital expenditures	5,596	-	5,596
Identifiable Assets as of June 30, 2008	\$ 995,973	\$ 6,384	\$ 1,002,357

## 8. Cash Dividends

The Company declared and paid dividends as follows (in thousands, except per share amounts):

Quarter Paid	Dividends Per Share	Total Dividends
--------------	------------------------	--------------------



First quarter of 2009	\$	0.19	\$	13,391
Second quarter of 2009	\$	0.19	\$	13,391
First quarter of 2008	\$	0.31	\$	21,849
Second quarter of 2008	\$	0.31	\$	21,849

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9. Income Taxes

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 the voting power or value of the securities of any one issuer unless the issuer is itself a REIT, a taxable REIT subsidiary ("TRS") or is treated as a disregarded entity for federal income tax purposes. In the case of TRSs, the Company's ownership of securities in all TRSs generally cannot exceed 25% (20% for taxable years beginning on or before July 30, 2008) 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. Two subsidiaries, FSP Investments LLC and FSP Protective TRS Corp., became TRSs. As a result, FSP Investments LLC (which is part of the Company's investment banking/investment services segment) and FSP Protective TRS Corp., operate as taxable corporations under the Code and have accounted for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes".

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.

The Company's adoption of the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No.109 (FIN 48)" effective January 1, 2007 did not result in recording a liability, nor was any accrued interest and penalties recognized with the adoption of FIN 48. Accrued interest and penalties will be recorded as income tax expense, if the Company records a liability in the future. The Company's effective tax rate was not affected by the adoption of FIN 48. The Company and one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The statute of limitations for the Company's income tax returns is generally three years and as such, the Company's returns that remain subject to examination would be primarily from 2005 and thereafter.

The income tax expense reflected in the condensed consolidated statements of income relates only to the TRSs. The expense differs from the amounts computed by applying the federal statutory rate to income before taxes as follows:

(in thousands)	For the Six Months Ended June 30,	
	2009	2008
Federal income tax benefit	\$ (502)	\$ (133)
Increase (decrease) in taxes resulting from:		
State income tax benefit, net of federal impact	(99)	(25)

Valuation allowance on state tax benefit	99	
Revised Texas franchise tax	128	117
Income tax benefit	\$ (374)	\$ (41)

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 TRSs. During the six months ended June 30, 2009 and the year ended December 31, 2008, FSP Investments had a federal tax benefit of approximately \$502,000 and \$736,000, respectively, arising from losses which should be fully utilized by carrying those losses back to tax years 2006 and 2007, and carrying forward a net operating loss of approximately \$331,000 to future years. For state tax reporting purposes, a valuation allowance of approximately \$99,000 and \$136,000 was recorded during the six months ended June 30, 2009 and the three months ended December 31, 2008 to reduce the tax benefit of these losses from FSP Investments due to recent tax legislation in Massachusetts that will most likely hinder the ability to use the loss carry-forward.

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9. Income Taxes (continued)

In May 2006, the State of Texas enacted a business tax (the "Revised Texas Franchise Tax") that replaced its existing franchise tax which the Company became subject to. The Revised Texas Franchise Tax is a tax at a rate of approximately 0.7% of revenues at Texas properties commencing with 2007 revenues. Some of the Company's leases allow reimbursement by tenants for these amounts because the Revised Texas Franchise Tax replaces a portion of the property tax for school districts. Because the tax base on the Revised Texas Franchise Tax is derived from an income based measure, it is considered an income tax and is accounted for in accordance with SFAS No. 109. The Company recorded a provision in income taxes on its income statement of \$128,000 and \$117,000 for the six months ended June 30, 2009 and 2008, respectively.

10. Subsequent Events

On July 14, 2009, Company made a \$2.5 million advance under its Sponsored REIT Loan to FSP 385 Interlocken LLC.

On July 17, 2009, the Board of Directors of the Company declared a cash distribution of \$0.19 per share of common stock payable on August 20, 2009 to stockholders of record on July 31, 2009.

On July 20, 2009, the Company made a \$1.3 million advance under its Sponsored REIT Loan to FSP 1441 Main Street LLC.

The Company has evaluated all subsequent events through August 4, 2009, the date the condensed consolidated financial statements were issued.

## Item 2. 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 and in our Annual Report on Form 10-K for the year ended December 31, 2008. Historical results and percentage relationships set forth in the condensed 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 Quarterly Report on Form 10-Q 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, economic conditions in the United States, disruptions in the debt markets, 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 Item 1A. "Risk Factors" below. 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 Quarterly Report on Form 10-Q 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, secured financing of real estate for interim acquisition or other property financing, and services provided for asset management, property management, property acquisitions, dispositions and development. 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.

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.

Due to the transactional nature of significant portions of our business, our quarterly financial metrics have historically been quite variable. We do not manage our business to quarterly targets but rather manage our business to longer-term targets. Consequently, we consider annual financial results to be much more meaningful for performance and trend measurements.

### 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 in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008.

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 assessments are consistently applied and produce financial information that fairly presents our results of operations. No changes to our critical accounting policies have occurred since the filing of our Annual Report on Form 10-K for the year ended December 31, 2008.

## Trends and Uncertainties

### Economic Conditions

The economy in the United States is continuing to experience significant disruptions, including increased levels of unemployment, the failure and near failure of a number of large financial institutions, reduced liquidity and increased credit risk premiums for a number of market participants. Economic conditions may be affected by numerous factors including but not limited to, inflation and employment levels, energy prices, recessionary concerns, changes in currency exchange rates, the availability of debt and interest rate fluctuations. The current disruptions in the U.S. economy have affected our business and may affect real estate values, occupancy levels, property income and the propensity and the ability of investors to invest in our Sponsored REITs in the future. At this time, we cannot predict the extent or duration of any negative impact that the current disruptions in the U.S. economy will have on our business.

On July 21, 2008, we announced that we had reduced our regular quarterly dividend to \$0.19 per share of common stock for the three months ended June 30, 2008, which was paid on August 20, 2008. In our July 21, 2008 announcement, we noted that we had experienced a significant slowing of activity in, and lower profit contribution from, two transactional components of our business, investment banking/investment services and property dispositions, since the onset of the current disruptions in the U.S. economy. We also noted that our ongoing/recurring real estate operations continued to show solid performance and that our board of directors believed it was prudent to better align our regular quarterly dividends with the results of our current real estate operations only, without taking into account the results of our less predictable transactional operations. Since the third quarter of 2008, we have continued to experience significantly reduced activity in, and lower profit contribution from, these two transactional components of our business, investment banking/investment services and property dispositions. However, since the third quarter of 2008, our real estate operations continued to show steady performance, and we have announced dividends of \$0.19 per share of common stock for each quarterly period.

### Real Estate Operations

Our real estate portfolio was approximately 92% leased as of June 30, 2009, down from 93% leased as of December 31, 2008. Notwithstanding our relatively stable recent occupancy rates, new leasing activity has slowed in most of our markets and we do not expect to see an increase in the pace of leasing until the broader economic markets stabilize and there is new job growth. Approximately 12% of the square footage in our portfolio is scheduled to expire during the remainder of 2009. While 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, we expect to renew or sign new leases at current market rates for locations in which the buildings are located, which in some cases may be below the expiring rates.

Given the current economic downturn, we believe the potential for any of our tenants to default on its lease or to seek the protection of bankruptcy laws has increased. 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.

We own an office property, which we refer to as the Property, located in Glen Allen, Virginia, a suburb of Richmond, that includes three buildings containing an aggregate of approximately 297,789 rentable square feet of space. Capital One Services, Inc., which we refer to as CapOne, currently leases 100% of the Property from us pursuant to a lease, which we refer to as the CapOne Lease, that expires on October 31, 2009. LandAmerica Financial Group, Inc., which

we refer to as LandAm, currently subleases 100% of the Property from CapOne pursuant to a sublease that also expires on October 31, 2009. Commencing on November 1, 2009, LandAm was scheduled to directly lease 100% of the Property from us pursuant to a lease, which we refer to as the LandAm Lease, that was due to expire on October 31, 2016. On November 26, 2008, LandAm filed a voluntary motion for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the Eastern District of Virginia, Richmond Division, which we refer to as the Bankruptcy Court. On June 19, 2009, LandAm filed a notice of rejection of the LandAm Lease with the Bankruptcy Court. The rejection of the LandAm Lease was expected and we are actively engaged in leasing efforts to find a replacement tenant or tenants. Significantly, the CapOne Lease remains in effect, and CapOne continues to be financially obligated to us for all payments of rent due under the CapOne Lease through October 31, 2009. As a result, management does not believe that the rejection of the LandAm Lease will have a material impact on our results of operations for the second quarter, the third quarter and a portion of the fourth quarter of 2009. We intend to use this time to continue our leasing efforts to find a replacement tenant or tenants. We have received expressions of interest in the Property from several potential replacement tenants and are optimistic that our leasing efforts will be successful. However, we cannot predict how long it will take to lease the vacant space or what the terms and conditions of any new lease or leases will be, although we would expect to sign new leases at current market rates which may be below the expiring rates.



### 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. Equity raised for Sponsored REIT syndications for 2008 was \$57.4 million. Equity raised for Sponsored REIT syndications for the first half of 2009 was insignificant.

In August 2007, one of our Sponsored REITs purchased an office property located in Kansas City, Missouri. Permanent equity capitalization of the property was structured as a private placement preferred stock offering totaling \$65 million, and was fully subscribed in the second quarter of 2009. We purchased a total of 175.5 shares of preferred stock in the Sponsored REIT at a net cost of approximately \$15.0 million. The balance of the offering was subscribed primarily by institutions and high net worth individuals, our traditional customer base. In May 2008, one of our Sponsored REITs began development of an office property located in Broomfield, Colorado. Permanent equity capitalization of the property was structured as a private placement offering of preferred stock totaling \$38 million of which \$33.5 million has been raised as of June 30, 2009; the offering is ongoing as of the beginning of the third quarter of 2009.

The slowdown in our investment banking business actually began in the third quarter of 2007 and, at this point, it remains unclear when or if a higher volume of equity investment will return. Business in this area, while always uncertain, continues to be adversely affected by the current turmoil in the financial, debt and real estate markets. Investors who have historically participated in our private placement real estate offerings continue to express concern and uncertainty about investing in this environment.

In addition to difficulties in raising equity from potential real estate investors in this market, our property acquisition executives are now grappling with greater uncertainty surrounding the valuation levels for prime commercial investment real estate. We believe that the current turmoil in the debt markets, as well as perceptions about the future U.S. economy and interest rates, are producing a larger than normal divergence in the perception of value and future relative investment performance of commercial properties. While we generally believe that such an environment has the potential to produce some exceptional property acquisition opportunities, caution, perspective and disciplined underwriting standards can significantly impact the timing of any future acquisitions. Consequently, our ability to provide a regular stream of real estate investment product necessary to grow our overall investment banking/investment services business continues to remain uncertain as the third quarter of 2009 begins. We also 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 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.

The following table shows results for the three months ended June 30, 2009 and 2008:

(in thousands)	Three months ended June 30,		
Revenue:	2009	2008	Change
Rental	\$ 29,254	\$ 27,700	\$ 1,554
Related party revenue:			
Syndication fees	29	3,257	(3,228)
Transaction fees	514	3,138	(2,624)
Management fees and interest income from loans	317	423	(106)
Other	18	19	(1)
Total revenue	30,132	34,537	(4,405)
Expenses:			
Real estate operating expenses	7,144	7,116	28
Real estate taxes and insurance	4,686	4,505	181
Depreciation and amortization	10,225	7,591	2,634
Selling, general and administrative	2,127	2,621	(494)
Commissions	40	1,654	(1,614)
Interest	1,599	1,051	548
Total expenses	25,821	24,538	1,283
Income before interest income, equity in earnings in non-consolidated REITs and taxes	4,311	9,999	(5,688)
Interest income	36	176	(140)
Equity in earnings of non-consolidated REITs	443	694	(251)
Income before taxes	4,790	10,869	(6,079)
Income tax expense (benefit)	(75)	335	(410)
Net income	\$ 4,865	\$ 10,534	\$ (5,669)

Comparison of the three months ended June 30, 2009 to the three months ended June 30, 2008:

#### Revenues

Total revenues decreased by \$4.4 million to \$30.1 million for the quarter ended June 30, 2009, as compared to \$34.5 million for the quarter ended June 30, 2008. The decrease was primarily a result of:

- o A \$5.9 million decrease in syndication fees and transaction (loan commitment) fees, which was principally a result of the decrease in gross syndication proceeds for the quarter ended June 30, 2009 compared to the same period in 2008.

The decrease was partially offset by:

- o

An increase in rental revenue of approximately \$1.5 million arising primarily from the acquisition of a property in Virginia and a property in Missouri in December 2008, and to a lesser extent, the acquisition of a property in Texas in May 2008, and early termination fees of \$0.3 million received during the three months ended June 30, 2009.

#### Expenses

Total expenses increased by \$1.3 million to \$25.8 million for the quarter ended June 30, 2009 as compared to the quarter ended June 30, 2008. The increase was primarily a result of:

- o An increase in real estate operating expenses and real estate taxes and insurance of approximately \$0.2 million, and depreciation of \$2.6 million, which were primarily from the acquisition of a property in Virginia and a property in Missouri in December 2008, and to a lesser extent, the acquisition of a property in Texas in May 2008.
- o An increase in interest expense of approximately \$0.5 million primarily as a result of the addition of the Term Loan, which was borrowed in October 2008; and was partially offset by a decrease in the average Revolver loan balance and lower average interest rates during the three months ended June 30, 2009 compared to the three months ended June 30, 2008.

The increase was partially offset by:

- o A decrease in commission expense of \$1.6 million, which was principally a result of the decrease in gross syndication proceeds in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008.
- o An decrease in general and administrative expenses of \$0.5 million, which was primarily the result of a decrease in discretionary compensation of \$0.6 million, which was partially offset by an increase from acquisition costs of \$0.2 million that were recorded in the three months ended June 30, 2009 related to the acquisitions of two properties in June 2009. We had 39 and 37 employees as of June 30, 2009 and 2008, respectively, at our headquarters in Wakefield.

#### Interest income

Interest income decreased \$0.1 million to \$36,000 during the three months ended June 30, 2009, which was primarily a result of lower average interest rates on invested funds and a lower average balance of cash and cash equivalents in 2009 compared to the same period in 2008.

#### Equity in earnings of non-consolidated REITs

Equity in earnings from non-consolidated REITs decreased approximately \$0.3 million to \$0.4 million compared to \$0.7 million during the three months ended June 30, 2009 compared to the same period in 2008.

#### Taxes on income

Taxes on income decreased \$0.4 million to a benefit of \$0.1 million in the three months ended June 30, 2009 compared to the same period in 2008. The decrease was primarily due to a taxable loss from the investment banking and investment services business, which was principally a result of the decrease in gross syndication proceeds during the three months ended June 30, 2009 compared to taxable income in 2008.

#### Net income

Net income for the three months ended June 30, 2009 was \$4.9 million compared to \$10.5 million for the three months ended June 30, 2008, for the reasons described above.

The following table shows results for the six months ended June 30, 2009 and 2008:

(in thousands)

	Six months ended June 30,		
	2009	2008	Change
Revenue:			
Rental	\$ 59,072	\$ 54,356	\$ 4,716
Related party revenue:			
Syndication fees	39	3,462	(3,423)
Transaction fees	542	3,306	(2,764)
Management fees and interest income from loans	862	984	(122)
Other	36	39	(3)
Total revenue	60,551	62,147	(1,596)
Expenses:			
Real estate operating expenses	14,424	13,815	609
Real estate taxes and insurance	9,515	8,784	731
Depreciation and amortization	18,139	14,950	3,189
Selling, general and administrative	4,135	4,630	(495)
Commissions	170	1,812	(1,642)
Interest	3,176	2,243	933
Total expenses	49,559	46,234	3,325
Income before interest income, equity in earnings in non-consolidated REITs and taxes	10,992	15,913	(4,921)
Interest income	72	479	(407)
Equity in earnings in non-consolidated REITs	1,235	1,487	(252)
Income before taxes	12,299	17,879	(5,580)
Income tax benefit	(374)	(41)	(333)
Net income	\$ 12,673	\$ 17,920	\$ (5,247)