

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

FRANKLIN STREET PROPERTIES CORP /MA/  
Form 10-Q  
May 02, 2007

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 March 31, 2007.

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  
-----  
(IRS Employer  
Identification Number)

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 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):

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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 April 30, 2007 was 70,766,305.

Franklin Street Properties Corp.

Form 10-Q

Quarterly Report  
March 31, 2007

Table of Contents

Part I. Financial Information

	Page
Item 1. Financial Statements	----
Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006.....	3
Consolidated Statements of Income for the three months ended March 31, 2007 and 2006.....	4
Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006.....	5
Notes to Consolidated Financial Statements.....	6-14
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15-22
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	23
Item 4. Controls and Procedures.....	24

Part II. Other Information

Item 1. Legal Proceedings.....	25
Item 1A. Risk Factors.....	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....	29
Item 3. Defaults Upon Senior Securities.....	30
Item 4. Submission of Matters to a Vote of Security Holders.....	30
Item 5. Other Information.....	30
Item 6. Exhibits.....	31

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Franklin Street Properties Corp.  
Consolidated Balance Sheets  
(Unaudited)(in thousands, except share and par value amounts) March 31, 2007

## Assets:

## Real estate assets:

Land	\$ 103,
Buildings and improvements	740,
Fixtures and equipment	
<hr/>	
Less accumulated depreciation	844, 43,
<hr/>	
Real estate assets, net	801,
Acquired real estate leases, less accumulated amortization of \$24,394 and \$21,548, respectively	39,
Investment in non-consolidated REITs	5,
Assets held for syndication, net	125,
Assets held for sale	
Cash and cash equivalents	68,
Certificate of deposit	5,
Restricted cash	
Tenant rent receivables, less allowance for doubtful accounts of \$433 and \$433, respectively	1,
Straight-line rent receivable, less allowance for doubtful accounts of \$163 and \$163, respectively	5,
Prepaid expenses	
Deposits on real estate assets	
Other assets	
Office computers and furniture, net of accumulated depreciation of \$881 and \$851, respectively	
Deferred leasing commissions, net of accumulated amortization of \$1,623, and \$1,323, respectively	7,
<hr/>	
Total assets	\$ 1,063,

## Liabilities and Stockholders' Equity:

## Liabilities:

Bank note payable	\$ 130,
Accounts payable and accrued expenses	16,
Accrued compensation	1,
Tenant security deposits	1,
Acquired unfavorable real estate leases, less accumulated amortization of \$681, and \$534, respectively	3,
<hr/>	
Total liabilities	153,

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

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 70,766,305 shares issued and outstanding, respectively	
Additional paid-in capital	907,
Treasury stock, 731,898 and 731,898 shares at cost, respectively	(14,
Earnings (distributions) in excess of accumulated earnings/distributions	15,
-----	
Total stockholders' equity	909,
-----	
Total liabilities and stockholders' equity	\$ 1,063,
=====	

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

3

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

	F Three M Ma
	2007
-----	
(in thousands, except per share amounts)	2007
=====	
Revenue:	
Rental	\$ 26,868
Related party revenue:	
Syndication fees	2,956
Transaction fees	3,081
Management fees and interest income from loans	1,817
Other	38
-----	
Total revenue	34,760
-----	
Expenses:	
Real estate operating expenses	6,655
Real estate taxes and insurance	4,483
Depreciation and amortization	7,657
Selling, general and administrative	1,888
Commissions	1,559
Interest	2,676
-----	
Total expenses	24,918
-----	
Income before interest income, equity in earnings of non-consolidated REITs and taxes on income	9,842

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

Interest income	653
Equity in earnings of non-consolidated REITs	(616)
-----	
Income before taxes on income	9,879
Income tax expense	240
-----	
Income from continuing operations	9,639
Income from discontinued operations	93
-----	
Net income	\$ 9,732
=====	
Weighted average number of shares outstanding, basic and diluted	70,766
=====	
Earnings per share, basic and diluted, attributable to:	
Continuing operations	\$ 0.14
Discontinued operations	--
-----	
Net income per share, basic and diluted	\$ 0.14
=====	

The accompanying notes are an integral part of these consolidated financial

4

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

	F
	Three M
	Ma
	-----
(in thousands)	2007
=====	
Cash flows from operating activities:	
Net income	\$ 9,732
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization expense	7,666
Amortization of above market lease	1,333
Equity in earnings from non-consolidated REITs	58
Distributions from non-consolidated REITs	28
Changes in operating assets and liabilities:	
Restricted cash	7
Tenant rent receivables, net	50
Straight-line rents, net	(1,277)
Prepaid expenses and other assets, net	75
Accounts payable and accrued expenses	(1,857)
Accrued compensation	(1,387)
Tenant security deposits	(97)

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

Payment of deferred leasing commissions	(66)
-----	
Net cash provided by operating activities	15,66
-----	
Cash flows from investing activities:	
Purchase of real estate assets, office computers and furniture, capitalized merger costs	(9,32)
Purchase of acquired favorable and unfavorable leases	-
Investment in non-consolidated REITs	(3)
Investment in certificate of deposit	(121,43)
Investment in assets held for syndication, net	5,83
Proceeds received on sales of real estate assets	(124,97)
-----	
Net cash used for investing activities	(124,97)
-----	
Cash flows from financing activities:	
Distributions to stockholders	(21,93)
Borrowings under bank note payable, net	130,00
-----	
Net cash provided by financing activities	108,06
-----	
Net decrease in cash and cash equivalents	(1,24)
Cash and cash equivalents, beginning of period	69,97
-----	
Cash and cash equivalents, end of period	\$ 68,72
=====	
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	\$ 1,69
Income taxes	17
Non-cash investing and financing activities:	
Accrued costs for purchase of real estate assets	\$ 2,04
Deposits on real estate assets converted to investments in assets held for syndication	\$ 5,01
Accrued merger costs at period end	

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

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

1. Organization, Properties, Basis of Presentation and Recent Accounting Pronouncements

Organization

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

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

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

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 (including real estate leasing, interim acquisition financing, development and asset/property management) and investment banking/investment services (including real estate acquisitions and broker/dealer 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 the Sponsored REITs. FSP Property Management provides asset management and property management services for the Sponsored REITs.

The Company owns and operates a portfolio of real estate, which consisted of 29 properties as of March 31, 2007. The Company also pursues, 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.

### Properties

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

	As of	
	March 31,	
	2007	2006
	-----	-----
Commercial real estate:		
Number of properties	29	22
Square feet	5,148,490	3,404,073

### Basis of Presentation

The unaudited 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 financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2006, 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 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

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

presentation of the financial statements for these interim periods have been included. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or for any other period.

6

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

1. Organization, Properties, Basis of Presentation and Recent Accounting Pronouncements (continued)

Reclassifications

Certain balances from the 2006 balance sheet and interim financial statements have been reclassified to conform to the 2007 presentation. The reclassifications primarily were related to the disposition of six properties sold in 2006 and one property sold in 2007, which are reported 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, which are segregated on the financial statements. There was no change to net income for any period presented as a result of these reclassifications.

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 a material impact on the Company's financial position, operations or cash flow.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 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 did not have a material impact on the Company's financial position, operations or cash flow.

2. Investment Banking/Investment Services Activity

During the three months ended March 31, 2007, the Company sold on a best efforts basis, through private placements, preferred stock in the following Sponsored REIT:

Sponsored REIT	Property Location	Gross Proceeds
-----		



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

		(in thousands) (1)
FSP 303 East Wacker Drive Corp.	Chicago, IL	\$49,150
		-----
	Total	\$49,150
		=====

1. The syndication of FSP 303 East Wacker Drive Corp. ("East Wacker"), which commenced in January 2007 was not complete at March 31, 2007. This amount represents the gross proceeds syndicated during the three months ended March 31, 2007.

### 3. Certificates of Deposit

Investment in certificates of deposit consists of investments the Company has the ability and intent to hold until their maturity. As of March 31, 2007 and December 31, 2006 the Company held a certificate of deposit with an original maturity of six months at a carrying value of \$5.2 million and \$5.1 million, respectively, with an annual interest rate of 5% that matured on April 11, 2007. The Company believes the aggregate fair value is approximately the same as its carrying value.

7

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

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

#### Investment in Sponsored REITs:

At March 31, 2007, the Company held an interest in eleven Sponsored REITs. Ten 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 preferred stock investment in two of these Sponsored REITs, FSP Park Ten Development Corp. ("Park Ten Development") and FSP Phoenix Tower Corp. ("Phoenix Tower"), from which it continues to derive economic benefit and risk. The remaining entity that was not fully syndicated at March 31, 2007, FSP 303 East Wacker Drive Corp., has a value of approximately \$125 million on the accompanying consolidated balance sheets and is classified as assets held for syndication.

The table below shows the Company's share of income and expenses from Sponsored REITs prior to consolidation. Management fees of \$18,000 and \$11,000 for the three months ended March 31, 2007 and 2006, respectively, and interest expenses are eliminated in consolidation.

	Three Months Ended	
(in thousands)	March 31,	
	2007	2006
	-----	-----
Operating Data:		
Rental revenues	\$ 2,079	\$ 1,215
Operating and maintenance expenses	1,102	554
Depreciation and amortization	442	288
Interest expense	992	479
Interest income	39	9
	-----	-----

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

\$ (418)     \$ (97)  
 =====     =====

Equity (deficit) in earnings of investment in non-consolidated REITs:

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

(in thousands)	Three Months Ended March 31,	
	2007	2006
	-----	-----
Equity in earnings of Sponsored REITs	\$ (666)	\$ 27
Equity in earnings of FSP Blue Lagoon Drive Corp.	--	53
Equity in earnings of Park Ten Development	(7)	--
Equity in earnings of Phoenix Tower	57	--
	-----	-----
	\$ (616)	\$ 80
	=====	=====

Equity (deficit) 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 (deficit) 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 the authorized preferred shares of Park Ten Development via a non-monetary exchange of land valued at \$850,000.

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).

8

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

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

Equity in earnings of FSP Blue Lagoon Drive Corp. ("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 the authorized preferred shares 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.

The Company recorded distributions declared or received of \$281,000 and \$118,000 from Sponsored REITs during the three months ended March 31, 2007 and 2006,

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

respectively.

### Non-consolidated REITs:

The Company has in the past acquired by merger entities similar to the Sponsored REITs, including 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 2007 includes operations of the eleven Sponsored REITs the Company held an interest in as of March 31, 2007. The operating data for 2006 includes operations of the fourteen Sponsored REITs the Company held an interest in as of March 31, 2006, including operations from the five 2006 Target REITs from January through March 31, 2006. The five 2006 Target REITs were merged into the Company on April 30, 2006.

At March 31, 2007, December 31, 2006 and March 31, 2006, the Company had ownership interests in eleven, ten and fourteen Sponsored REITs, respectively. Summarized financial information for these Sponsored REITs is as follows:

	March 31, 2007	December 31, 2006
	-----	-----
	(in thousands)	
Balance Sheet Data (unaudited):		
Real estate, net	\$ 621,598	\$ 612,835
Other assets	66,193	87,383
Total liabilities	(258,576)	(132,565)
	-----	-----
Shareholders equity	\$ 429,215	\$ 567,653
	=====	=====
	For the Three Months Ended March 31,	
	2007	2006
	-----	-----
	(in thousands)	
Operating Data (unaudited):		
Rental revenue	\$ 22,099	\$ 16,522
Other revenue	781	731
Operating and maintenance expenses	(10,735)	(7,477)
Depreciation and amortization	(4,339)	(3,604)
Interest expense and commitment fees	(7,017)	(2,736)
	-----	-----
Net income (loss)	\$ 789	\$ 3,436
	=====	=====

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

### Syndication fees and Transaction fees:

The Company provides syndication and real estate acquisition advisory services for Sponsored REITs. Syndication and transaction fees from non-consolidated entities amounted to approximately \$6,037,000 and \$3,860,000 for the three months ended March 31, 2007 and 2006, 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 \$228,000 and \$167,000 for the three months ended March 31, 2007 and 2006, 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. The Company recognized interest income from interim mortgage loans of approximately \$1,589,000 and \$4,000 for the three months ended March 31, 2007 and 2006, respectively, relating to these loans.

### 5. 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 prime rate (8.25% at March 31, 2007) or a rate equal to LIBOR plus 125 basis points (6.57% at March 31, 2007). The balance outstanding was \$130,000,000 at March 31, 2007, and there was no balance outstanding at December 31, 2006. The weighted average interest rate on amounts outstanding during the three months ended March 31, 2007 and 2006 was 6.57% and 6.34%, respectively; and for the year ended December 31, 2006 was approximately 6.39%.

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 March 31, 2007 and December 31, 2006. Borrowings under the Loan Agreement mature on August 18, 2008.

### 6. 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 March 31, 2007 and 2006.

### 7. 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. For the year ended December 31, 2006, the Company reported the gains from the sale of these properties and a provision for loss on the Greenville property held for sale.

Accordingly, each of the seven properties sold are classified as discontinued operations on our financial statements. Income from discontinued operations was approximately \$93,000 and \$1,858,000 for the three months ended March 31, 2007

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

and 2006, respectively.

10

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

## 8. Business Segments

The operating results for these real estate assets have been reflected as discontinued operations in the consolidated statements of income for all periods presented, and are summarized below:

(in thousands)	For the Three Months Ended March 31,	
	2007	2006
Rental revenue	\$ 116	\$ 4,584
Rental operating expenses	(23)	(1,362)
Real estate taxes and insurance	--	(495)
Depreciation and amortization	--	(869)
Interest income	--	--
	-----	-----
Net income from discontinued operations	\$ 93	\$ 1,858

The Company operates in two business segments: real estate operations (including real estate leasing, interim acquisition financing, development and asset/property management) and investment banking/investment services (including 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" 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, 2006. 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

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

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.

11

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

8. Business Segments (continued)

The calculation of AFFO by business segment is shown in the following table:

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
	-----	-----	-----
Three Months Ended March 31, 2007			
Net Income	\$ 9,376	\$ 356	\$ 9,732
Equity in income of non-consolidated REITs	583	--	583
Distributions from non-consolidated REITs	281	--	281
Depreciation and amortization	8,970	30	9,000
Straight line rent	(1,273)	--	(1,273)
	-----	-----	-----
Adjusted Funds From Operations	\$ 17,937	\$ 386	\$ 18,323
	=====	=====	=====
Three Months Ended March 31, 2006			
Net Income	\$ 13,054	\$ 85	\$ 13,139
Equity in income of non-consolidated REITs	(275)	--	(275)
Distributions from non-consolidated REITs	118	--	118
Depreciation and amortization	7,100	33	7,133
Straight line rent	200	--	200
	-----	-----	-----
Adjusted Funds From Operations	\$ 20,197	\$ 118	\$ 20,315
	=====	=====	=====

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

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
	-----	-----	-----
March 31, 2007:			
Revenue	\$ 31,551	\$ 3,209	\$ 34,760
Interest income	645	8	653
Interest expense	2,676	--	2,676
Capital expenditures	(2,854)	--	(2,854)
Identifiable assets	\$ 1,056,974	\$ 6,098	\$ 1,063,072
March 31, 2006:			

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

Revenue	\$ 23,203	\$ 2,167	\$ 25,370
Interest income	579	9	588
Interest expense	594	--	594
Capital expenditures	232	36	268
Identifiable assets	\$ 707,481	\$ 4,907	\$ 712,388

12

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

### 9. 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 2007	\$.31	\$21,938
First quarter of 2006	\$.31	\$18,536

### 10. 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 dividends 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 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 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, 2001, a subsidiary of the Company has elected to be treated as 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 Statement of Financial Accounting Standard ("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.

The Company's adoption of the provisions of 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

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

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 2003 and thereafter

The income tax expense reflected in the consolidated statements of income relates only to the TRS. The expense differs from the amounts computed by applying the Federal statutory rate of 34% to income before income taxes as follows:

(in thousands)	For the Three Months Ended March 31,	
	2007	2006
	-----	-----
Federal income tax expense at statutory rate	\$ 203	\$ 48
Increase in taxes resulting from:		
State income taxes, net of federal impact	37	9
	-----	-----
	\$ 240	\$ 57
	=====	=====

No deferred income taxes were provided as there were no material temporary differences between the financial reporting basis and the tax basis of the taxable REIT subsidiary.

13

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

### 11. Subsequent Events

The Company repaid \$30 million of its bank note payable on April 4, 2007, and declared a cash distribution of \$0.31 per share on April 20, 2007 to stockholders of record on April 30, 2007 payable on May 21, 2007.

14

### 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, 2006. 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 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



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

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 the factors set forth below under the caption, Item 1A. "Risk Factors". 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

We operate 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.

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. We continue to be very optimistic about our full-year 2007 financial performance potential and growth prospects.

Net income decreased \$3.4 million comparing the first quarter of 2007 to 2006. The decrease was principally a result of a decrease in termination fee income, which is included in rental revenue. During the first quarter of 2007 such income was \$61,000 compared to \$4,722,000 in the first quarter of 2006. The impact of this \$4.7 million decrease was partially offset by increases in income from real estate operations, including the impact of mergers, acquisitions and properties sold in the last twelve months, of approximately \$1.1 million; and the benefit of increased investment banking results of approximately \$0.3 million. Selling, general and administrative expenses also increased \$83,000. Each of these components of our results are more fully discussed below.

### 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, 2006.

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 our Annual Report on Form 10-K for the year ended December 31, 2006.

15

Trends and Uncertainties

-----  
Real Estate Operations

Our property operations during the first quarter of 2007 produced profit results that were generally in line with management's expectations. Significantly, two properties totaling approximately 263,000 square feet, one in the greater Seattle/Tacoma area, and the other in Silicon Valley, did not contribute meaningful rental income as each was substantially vacant. Both properties are in the process of being physically repositioned in their respective markets from single- to multi-tenant configurations. Construction and lease-up of these two assets is likely to take up a good portion of 2007 and possibly beyond. However, once repositioned and released, we believe these two properties can add meaningful rental income and value. To date, approximately 42% of our 526,269 square feet of expected 2007 lease expirations has been re-leased/renewed.

Our major lease expirations scheduled for 2007 occurred during the first quarter, which added some additional square footage to our vacant space, although there were several renewals and extensions. The portfolio was approximately 86% leased at March 31, 2007, and approximately 3% of the portfolio is anticipated to have lease expirations over the remainder of the year, based on rentable square feet.

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 the locations in which the buildings are located, which in some cases may be below the expiring rental rates. In most of our markets, leasing conditions are still improving gradually, but market rents have still not returned to the levels that were reached in the late 1990s and before 2001.

Investment Banking/Investment Services

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

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 in the first quarter of 2007 totaled \$49.2 million. Future business in this area, while always uncertain, continues to be more encouraging than in the past three years. In January of 2007, one of our Sponsored REITs purchased a property for investment syndication. Permanent equity capitalization of the property was structured as a private placement preferred stock offering totaling \$221 million. This offering is the largest single-investment syndication in our history.

Despite this current syndication, our property acquisition executives continue to grapple with historically 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 remain low 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. As the first quarter of 2007 ends, 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.

### 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 FSP, and the related impact of creating the Sponsored REITs;
- 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

### Discontinued Operations and Property Dispositions

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

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

16

Greenville, South Carolina, which was sold on January 31, 2007. Accordingly, as of December 31, 2006 the South Carolina property was held for sale and is classified as such on our financial statements. The operating results for these real estate assets have been reflected as discontinued operations in the financial statements for the three months ended March 31, 2007 and 2006, respectively.

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.

The following table shows each segment for the three months ended March 31, 2007 and 2006.

(in thousands)

	Three months ended March 31,		
	2007	2006	Change
Real Estate Operations			
Revenues:			
Rental income	\$ 26,868	\$ 21,317	\$ 5,551
Transaction fees	2,828	1,693	1,135
Management fees and interest income from loans	1,855	193	1,662
	31,551	23,203	8,348
Expenses:			
Real estate operating expenses	6,655	4,099	2,556
Real estate taxes and insurance	4,483	2,405	2,078
Depreciation and amortization	7,627	4,742	2,885
Interest	2,676	594	2,082
	21,441	11,840	9,601
Other items:			
Interest income	645	579	66
Equity in earnings in non-consolidated REIT's	(616)	80	(696)
	29	659	(630)
Contribution from real estate	10,139	12,022	(1,883)
Investment Banking/Investment Services:			
Syndication fees	2,956	1,921	1,035
Transaction fees	253	246	7
	3,209	2,167	1,042

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

Expenses:			
Commissions	1,559	1,022	537
Depreciation and amortization	30	33	(3)
	-----	-----	-----
	1,589	1,055	534
	-----	-----	-----
Other items:			
Interest income	8	9	(1)
Taxes on income	(240)	(57)	(183)
	-----	-----	-----
	(232)	(48)	(184)
	-----	-----	-----
Contribution from investment banking	1,388	1,064	324
	-----	-----	-----
Selling, general and administrative expenses	1,888	1,805	83
	-----	-----	-----
Income from continuing operations (Combined)	9,639	11,281	(1,642)
Discontinued operations, less applicable income tax:			
Income from discontinued operations	93	1,858	(1,765)
	-----	-----	-----
Net income	\$ 9,732	\$ 13,139	\$ (3,407)
	=====	=====	=====

17

The real estate operations 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 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. During the first three months of 2007 we completed the sale of the property held for sale, and as of March 31, 2007 we operated 29 properties.

Acquisitions, Mergers and Dispositions:

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 three months ended March 31, 2007 as compared to the same period in 2006 are primarily a result of the timing of these acquisitions and subsequent contribution of these acquired properties. The operating results of the seven properties sold were classified as discontinued operations in our financial statements for all periods presented.

Sales of Real Estate:

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

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

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:

The investment banking/investment services segment is primarily based on the gross proceeds from the sale of securities of the Sponsored REITs. During the three months ended March 31, 2007 our investment banking/investment services segment had total gross proceeds of \$49.2 million; which was derived from the syndication of FSP 303 East Wacker Drive Corp. During the three months ended March 31, 2006 our investment banking/investment services segment had total gross proceeds of \$29.2 million; which was derived from the syndication of FSP Phoenix Tower Corp. As a result, total gross proceeds increased \$20.0 million for the three months ended March 31, 2007 compared to three months ended March 31, 2006. The syndication currently in process commenced in January 2007, and the syndication in process during the three months ended March 31, 2006 commenced in February 2006.

The \$49.2 million of proceeds raised in the first quarter reflected the offering of FSP 303 East Wacker Drive Corp. being available for subscription for only a portion of the quarter. As of April 30, 2007, additional equity in the amount of approximately \$24.8 million was closed into the transaction. Our acquisition executives continue to work on other property investment opportunities and are currently more optimistic about potential future investment banking product than in the past several years. Our investment banking business is off to a solid start this year, and we are optimistic about this business segment's potential for increased contribution in 2007.

Comparison of the three months ended March 31, 2007 to the three months ended March 31, 2006

#### Overview

-----

Total revenues increased \$9.4 million to \$34.8 million for the first quarter ended March 31, 2007, as compared to \$25.4 million for the quarter ended March 31, 2006. Total expenses were \$24.9 million for the quarter ended March 31, 2007, which was an increase of \$10.2 million compared to the quarter ended March 31, 2006. The increases were primarily attributable to properties acquired in the last twelve months and increases in investment banking activity in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

Each segment is discussed below.

#### Real Estate Operations

-----

Contribution from the real estate segment was \$10.1 million for the three months ended March 31, 2007; a decrease of \$1.9 million, compared to the three months ended March 31, 2006. The decrease is primarily attributable to:

- o An increase to real estate operating income of \$0.9 million to \$15.7 million for the three months ended March 31, 2007 compared to \$14.8 million for same period in 2006. 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:
  - A \$5.6 million increase in real estate operating income resulting from the acquisitions of a property in Texas during February 2006, the five 2006 Target REITs by merger on April 30, 2006, a property

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

in Georgia in June 2006 and a property in Colorado in December 2006. Real estate operating income from acquisitions is included in

18

current operating income. Each of these acquisitions resulted in an increase in real estate operating income for the first quarter of 2007 compared to the first quarter of 2006. The positive impact of these acquisitions was somewhat mitigated by vacancies at two properties during the three months ended March 31, 2007, which were leased in the first quarter of 2006; and

- A \$4.7 million decrease in lease termination payments received. During the three months ended March 31, 2007 we received lease termination fee income of \$61,000 from two tenants in Texas compared to \$4.7 million from one tenant in Illinois during the three months ended March 31, 2006;
- o A \$1.7 million increase in transaction (loan commitment) fees, which was principally a result of the increase in gross syndication proceeds in the quarter compared to the same period in 2006.
- o An increase in management fees and loan interest income of \$1.7 million, principally a result of interest income from a larger loan balance during the first quarter of 2007 as compared to 2006. The mortgage loan for the property in syndication during the first quarter of 2007 commenced on January 5, 2007 as compared to the mortgage loan for the property in syndication during the first quarter of 2006, which commenced on February 21, 2006. The impact of this increase was slightly greater as a result of higher interest rates charged for the first quarter of 2007 compared to 2006.
- o An increase to interest income of \$0.1 million during the three months ended March 31, 2007, which was primarily a result of higher interest rates earned on cash, cash equivalents and other investments compared to the three months ended March 31, 2006.

These increases were offset by:

- o A increase in interest expense of \$2.1 million resulting from a higher average loan balance outstanding for syndications in process during the three months ended March 31, 2007 compared to the three months ended March 31, 2006, which was slightly greater as a result of higher interest rates in the 2007 period than the 2006 period.
- o An increase in depreciation and amortization expense of \$2.9 million to \$7.6 million for the three months ended March 31, 2007 as compared to \$4.7 million for the same period in 2006. 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 \$0.6 million, which was principally a result of a loss attributed to us from a syndication in process during the first quarter of 2007, as compared to the first quarter of 2006.

### Investment Banking/Investment Services

-----  
Contribution from the investment banking and services segment was \$1.4 million for the three months ended March 31, 2007, which was an increase of \$0.3

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

million, compared to the three months ended March 31, 2006. The increase was primarily attributable to:

- o A increase in syndication and transaction fee revenues of \$1.0 million, which was primarily attributable to a greater level of gross syndication proceeds during the three months ended March 31, 2007 compared to the three months ended March 31, 2006.
- o An increase in commission expense of \$0.5 million, which relates to the increase in gross syndication proceeds.
- o An increase in income taxes of \$0.2 million arising from greater taxable income during the three months ended March 31, 2007 as compared to the same period in 2006.
- o There were insignificant changes to depreciation and amortization and interest income during the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

### Selling, general and administrative expenses -----

Selling, general and administrative costs increased \$83,000, primarily from a greater amount of payroll taxes primarily as a result of increases to commissions, and, to a lesser extent salaries during the three months ended March 31, 2007 compared to the three months ended March 31, 2006. We had 38 employees as of March 31, 2007 at our headquarters in Wakefield compared to 40 employees as of March 31, 2006.

19

### Income from continuing operations -----

Contribution from both segments, net of selling, general and administrative expenses for the first quarter of 2007 decreased \$1.6 million to \$9.6 million compared the first quarter of 2006 for the reasons discussed above.

### Discontinued Operations -----

During 2006, we sold six properties and classified one property in Greenville, South Carolina as held for sale, which was sold on January 31, 2007. Accordingly, each of the six properties sold and the property held for sale are reported as discontinued operations on our financial statements for the relevant periods presented. Income from discontinued operations was \$93,000 for the three months ended March 31, 2007 and was \$1.8 million for the three months ended March 31, 2006.

The Company will continue to evaluate its portfolio, and from time-to-time may decide to dispose of other properties.

### Net Income -----

Net income for the three months ended March 31, 2007 decreased \$3.4 million to \$9.7 million compared to \$13.1 million for the three months ended March 31, 2006, for the reasons discussed above.

### Liquidity and Capital Resources



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

Cash and cash equivalents were \$68.7 million and \$70.0 million at March 31, 2007 and December 31, 2006, respectively. This decrease of \$1.2 million is attributable to \$15.7 million provided by operating activities, less \$125.0 million used for investing activities, plus \$108.1 million provided by financing activities. Management believes that existing cash, cash anticipated to be generated internally by operations, cash anticipated to be generated by fees and commissions from 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 and improvements for at least the next 12 months. Although there is no guarantee that we will be able to obtain the funds necessary for our future growth, we anticipate generating funds from continuing real estate operations and from fees and commissions from the sale of shares in newly formed Sponsored REITs. We believe that we have adequate funds to cover unusual expenses and capital improvements, in addition to normal operating expenses. Our ability to maintain or increase our level of dividends to stockholders, however, depends in significant part upon the level of interest on the part of investors in purchasing shares of Sponsored REITs and the level of rental income from our real properties.

### Operating Activities

The cash provided by our operating activities of \$15.7 million is primarily attributable to net income of \$9.7 million, plus the add-back of \$9.6 million of non-cash activity and \$0.3 million of distributions from non-consolidated REITs and was partially offset by decreases in accrued expenses and compensation of \$3.2 million and other current operating accounts of \$0.7 million.

### Investing Activities

Our cash used for investing activities of \$125.0 million is primarily attributable to our investment in assets held for syndication of \$121.4 million and additions to real estate investments and office equipment of approximately \$9.3 million, which were partially offset by proceeds received on the sale of the Greenville, South Carolina property of \$5.8 million.

### Financing Activities

Our cash provided by financing activities of \$108.1 million is primarily attributable to net proceeds from our line of credit of \$130.0 million used to purchase assets held for syndication, which were partially offset by distributions to shareholders of \$21.9 million.

### Line of Credit

We have 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 prime rate (8.25% at March 31, 2007) or a rate equal to LIBOR plus 125 basis points (6.57% at March 31, 2007). The balance outstanding was \$130,000,000 at March 31, 2007, and there was no balance outstanding at December 31, 2006. We are in compliance with all bank covenants required by the Loan Agreement.

20

### Contingencies

We are subject to various legal proceedings and claims that arise in the ordinary course of its business. Although occasional adverse decisions (or

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

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 March 31, 2007 there was one asset held for syndication, consisting of the office property owned by FSP 303 East Wacker Drive Corp. and as of December 31, 2006 there were no assets held for syndication.

### 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 the three months ended March 31, 2007, we completed the syndication of FSP 50 South Tenth Street Corp. and began the syndication of FSP 303 East Wacker Drive Corp. We did not enter into any other significant transactions with related parties during the quarter ended March 31, 2007. For a discussion of transactions between us and related parties during 2006, see Footnote No. 5 "Related Party Transactions" to the Consolidated Financial Statements of the Company's 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 three months ended March 31, 2007, the rental income exceeded the expenses for each individual property, with the exception of a property located in Westford, Massachusetts, a property located in Federal Way, Washington and a property located in San Jose, California. For the three months ended March 31, 2006 the rental income exceeded the expenses for each individual property, with the exception of the property located in Westford, Massachusetts.

- o The single tenant lease at the property located in Westford, Massachusetts, expired October 31, 2004. We have not re-let the property and expect that it will not produce revenue to cover its expenses in the second quarter of 2007. The property had operating expenses of \$86,000 and \$73,000 for the three months ended March 31, 2007 and 2006, respectively.
- o The single tenant lease at the property located in Federal Way, Washington, expired September 14, 2006. We have signed a lease for approximately 8% of the space, which commences later this year and includes a free rent period. We expect that the property will not produce revenue to cover its expenses in the second or third quarter of 2007. The property had operating expenses of \$139,000 for the three months ended March 31, 2007.
- o The single tenant lease at the property located in San Jose, California, expired December 31, 2006. There is one tenant in the building occupying 19% of the rentable square feet of the property, from which we had rental income of \$100,000 during the three months ended March 31, 2007. The property had operating expenses of \$124,000 for the three months ended March 31, 2007. We are repositioning the property and have not re-let the remaining space and do not expect to add tenants until the repositioning work is complete. As a result, we do not believe the property will produce

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

revenue to cover its expenses in the second quarter of 2007.

21

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We were not a party to any derivative financial instruments at or during the three months ended March 31, 2007.

We borrow from time-to-time on our line of credit. These borrowings bear interest at the bank's base rate (8.25% at March 31, 2007) or at LIBOR plus 125 basis points (6.57% at March 31, 2007), as elected by us when requesting funds. As of March 31, 2007, \$130,000,000 was outstanding under the line of credit consisting of one borrowing at the LIBOR plus 125 basis point rate. 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.

22

### Item 4. 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 March 31, 2007. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, 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 March 31, 2007, 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.

#### Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be 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 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 Quarterly Report on Form 10-Q and presented elsewhere by management from time-to-time. The following risk factors contain no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

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 revenue is generated by the rental income of our real properties. If our properties do not provide us with a steady rental income, our revenue will decrease, which 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 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.

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

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

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.

24

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.

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.

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

As of April 30, 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 a property in Texas in February 2006, 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;
- o changes in tax, real estate and zoning laws; and
- o the impact of obligations and restrictions contained in title-related documents.

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.

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

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

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 March 31, 2007, 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.

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 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;

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

- 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.

26

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.

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 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.



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

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.

27

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 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

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

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 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.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds:

The following table provides information about purchases by Franklin Street

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

Properties Corp. during the quarter ended March 31, 2007 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

### ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a)		(b)	(c)		Max (or Doll Share that Purcha Plans
	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)		
01/01/07-01/31/07	0		N/A	0		\$2
02/01/07-02/28/07	0		N/A	0		\$2
03/01/07-03/30/07	0		N/A	0		\$2
<b>Total:</b>	0		N/A	0		\$2

(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.

#### Item 3. Defaults Upon Senior Securities

None.

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

None.

#### Item 5. Other Information

For purposes of Regulation FD the Company has attached a table regarding the investors in Sponsored REITs attached as Exhibit 99.1 hereto.

PART II - OTHER INFORMATION (Continued)

Item 6. Exhibits

See Exhibit Index attached hereto on page 32, which is incorporated herein by reference.

SIGNATURES

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

FRANKLIN STREET PROPERTIES CORP.

Date	Signature	Title
Date: May 1, 2007	/s/ George J. Carter ----- George J. Carter	Chief Executive Officer and Director (Principal Executive Officer)
Date: May 1, 2007	/s/ John G. Demeritt ----- John G. Demeritt	Chief Financial Officer (Principal Financial Officer)

EXHIBIT INDEX

- 2.1 Agreement and Plan of Merger by and among the Company, 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 (1)
- 2.2 Agreement of Sale and Purchase, dated May 19, 2006, by and between One Overton Park LLC and FSP One Overton Park LLC (2)
- 3.1 Articles of Incorporation (3)
- 3.2 Amended and Restated By-Laws (4)
- 31.1 Certification of the President and Chief Executive Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer of the Registrant pursuant to

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

Section 302 of the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of the President and Chief Executive Officer of the Registrant 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 the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Table regarding investors in Sponsored REITs.

- 
- (1) Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated March 15, 2006 (File No. 001-32470) as filed on March 16, 2006 and incorporated herein by reference.
  - (2) Filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 27, 2006 (File No. 001-32470) as filed on June 28, 2006 and incorporated herein by reference.
  - (3) Filed as Exhibit 3.1 to the Company's Registration Statement on Form 8-A (File No. 001-32470) as filed on April 5, 2005 and incorporated herein by reference.
  - (4) Filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 12, 2006 (File No. 001-32470) as filed on May 15, 2006 and incorporated herein by reference.