FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-Q
May 04, 2010

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

FORM 10 - Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010.

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	04-3578653
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES |X| NO |_|

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

YES |_| NO |_|

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

Large accelerated filer |X|	Accelerated filer |_|
Non-accelerated filer |_| (Do not check if a smaller reporting company)	Smaller reporting company |_|

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

FORM 10-Q, Continued

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

YES |_| NO |X|

The number of shares of common stock outstanding as of April 30, 2010 was 79,680,705.

Franklin Street Properties Corp.

Form 10-Q

Quarterly Report
March 31, 2010

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in thousands, except share and par value amounts)	March 31, 2010	December 31, 2009
Assets:		
Real estate assets:		
Land	$ 126,447	$ 126,447
Buildings and improvements	895,671	894,012
Fixtures and equipment	354	328
	1,022,472	1,020,787
Less accumulated depreciation	105,517	98,954
Real estate assets, net	916,955	921,833
Acquired real estate leases, less accumulated amortization of $35,636 and $34,592, respectively	41,783	44,757
Investment in non-consolidated REITs	91,787	92,910
Assets held for syndication, net	2,791	4,827
Cash and cash equivalents	22,815	27,404
Restricted cash	50	334
Tenant rent receivables, less allowance for doubtful accounts of $1,000 and $620, respectively	1,385	1,782
Straight-line rent receivable, less allowance for doubtful accounts of $100 and $100, respectively	14,215	10,754
Prepaid expenses	2,236	2,594
Related party mortgage loan receivable	41,325	36,535
Other assets	870	844
Office computers and furniture, net of accumulated depreciation of $1,267 and $1,233, respectively	350	384
Deferred leasing commissions, net of accumulated amortization of $5,350, and $4,995, respectively	15,752	10,808
Total assets	$ 1,152,314	$ 1,155,766
Liabilities and Stockholders’ Equity:		
Liabilities:		
Bank note payable	$ 119,968	$ 109,008
Term loan payable	75,000	75,000
Accounts payable and accrued expenses	20,467	23,787
Accrued compensation	274	1,416
Tenant security deposits	1,696	1,808
Other liabilities: derivative termination value	1,995	2,076
Acquired unfavorable real estate leases, less accumulated amortization of $2,698, and $2,492, respectively	5,137	5,397
Total liabilities	224,537	218,492
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, 79,680,705 and 79,680,705 shares issued and outstanding, respectively		8		8
Additional paid-in capital		1,003,712		1,003,713
Accumulated other comprehensive loss		(1,995)		(2,076)
Accumulated distributions in excess of accumulated earnings		(73,948)		(64,371)
Total stockholders' equity		927,777		937,274
Total liabilities and stockholders' equity	$	1,152,314	$	1,155,766

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

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

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2010	2009
Revenue:		
Rental	$30,799	$29,818
Related party revenue:		
Syndication fees	121	10
Transaction fees	146	28
Management fees and interest income from loans	533	545
Other	9	18
Total revenue	31,608	30,419
Expenses:		
Real estate operating expenses	7,973	7,280
Real estate taxes and insurance	5,246	4,829
Depreciation and amortization	9,219	7,914
Selling, general and administrative	2,171	2,008
Commissions	114	130
Interest	1,652	1,577
Total expenses	26,375	23,738
Income before interest income, equity in earnings of non-consolidated REITs and taxes	5,233	6,681
Interest income	8	36
Equity in earnings of non-consolidated REITs	253	792
Income before taxes on income	5,494	7,509
Taxes on income	(68)	(299)
Net income	$5,562	$7,808
Weighted average number of shares outstanding, basic and diluted	79,681	70,481
Net income per share, basic and diluted	$0.07	$0.11

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

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

(in thousands)	For the Three Months Ended March 31, 2010	2009
Cash flows from operating activities:		
Net income	$5,562	$7,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,284	7,981
Amortization of above market lease	716	793
Equity in earnings of non-consolidated REITs	(253)	(792)
Distributions from non-consolidated REITs	1,407	1,615
Increase in bad debt reserve	380	86
Changes in operating assets and liabilities:		
Restricted cash	284	-
Tenant rent receivables, net	17	159
Straight-line rents, net	(1,020)	(374)
Prepaid expenses and other assets, net	265	(171)
Accounts payable and accrued expenses	(3,917)	(3,154)
Accrued compensation	(1,142)	(1,404)
Tenant security deposits	(112)	(79)
Payment of deferred leasing commissions	(5,566)	(162)
Net cash provided by operating activities	5,905	12,306
Cash flows from investing activities:		
Purchase of real estate assets, office computers and furniture	(3,529)	(3,295)
Changes in deposits on real estate assets	-	1,300
Investment in related party mortgage loan receivable	(4,790)	(3,600)
Investment in assets held for syndication, net	2,005	86
Net cash used in investing activities	(6,314)	(5,509)
Cash flows from financing activities:		
Distributions to stockholders	(15,139)	(13,391)
Proceeds from equity offering, net	(1)	-
Borrowings under bank note payable	10,960	5,000
Net cash used in financing activities	(4,180)	(8,391)
Net decrease in cash and cash equivalents	(4,589)	(1,594)
Cash and cash equivalents, beginning of period	27,404	29,244
Cash and cash equivalents, end of period	$22,815	$27,650
Non-cash investing and financing activities:		
Accrued costs for purchase of real estate assets	$2,533	$1,750

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

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

	For the Three Months Ended March 31,	
(in thousands)	2010	2009
Net income	$5,562	$7,808
Other comprehensive income:		
Unrealized gain on derivative financial instruments	81	19
Total other comprehensive income	81	19
Comprehensive income	$5,643	$7,827

The accompanying notes are an integral part of these condensed consolidated financial statements
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Franklin Street Properties Corp.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

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

Organization

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

The Company operates in two business segments: real estate operations and investment banking/investment services. FSP Investments LLC provides real estate investment and broker/dealer services. FSP Investments LLC's services include: (i) the organization of REIT entities (the "Sponsored REITs"), which are syndicated through private placements; (ii) sourcing of the acquisition of real estate on behalf of the Sponsored REITs; and (iii) the sale of preferred stock in Sponsored REITs. FSP Investments LLC is a registered broker/dealer with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority, or FINRA. FSP Property Management LLC provides asset management and property management services for the Sponsored REITs.

The Company owns and operates a portfolio of real estate, which consisted of 32 properties as of March 31, 2010. From time-to-time, the Company may acquire real estate or invest in real estate by purchasing shares of preferred stock offered in syndications of Sponsored REITs. The Company may also pursue, on a selective basis, the sale of its properties in order to take advantage of the value creation and demand for its properties, or for geographic or property specific reasons.

On September 23, 2009, the Company completed an underwritten public offering of 9.2 million shares of its common stock (including 1.2 million shares issued as a result of the full exercise of an overallotment option by the underwriter) at a price to the public of $13.00 per share. The proceeds from this public offering, net of underwriter discounts and offering costs, totaled approximately $114.7 million.

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, 2010	2009
Commercial real estate:		
Number of properties	32	29
Rentable square feet	5,942,299	5,417,515

Basis of Presentation

The unaudited condensed consolidated financial statements of the Company include all the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or for any other period.

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

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

Financial Instruments

The Company estimates that the carrying value of cash and cash equivalents, restricted cash, tenant rent receivables, the bank note payable, term note payable, accounts payable and its obligation to make the Sponsored REIT Loans (as defined in Note 3 below) approximate their fair values based on their short-term maturity and floating interest rate.

Recent Accounting Standards

In May 2009, the Financial Accounting Standards Board ("FASB") issued a pronouncement which sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This pronouncement requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This disclosure should alert all users of financials statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. The Company is adhering to the requirements of this pronouncement which was effective for financial periods ending after June 15, 2009.

On June 12, 2009, the FASB issued a pronouncement that changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity`s purpose and design and a company`s ability to direct the activities of the entity that most significantly impact the entity`s economic performance. The pronouncement is effective for fiscal years and interim periods within those fiscal years beginning on or after November 15, 2009. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

2. Investment Banking/Investment Services Activity

During the three months ended March 31, 2010, the Company sold on a best efforts basis, through private placements, preferred stock in the following Sponsored REITs:

Sponsored REIT	Property Location	Gross Proceeds (1)
		(in thousands)
FSP 385 Interlocken Development Corp.	Broomfield, CO	$ -
FSP Centre Pointe V Corp.	West Chester, OH	2,075
	Total	$ 2,075

(1) The syndication of FSP 385 Interlocken Development Corp. ("385 Interlocken"), which commenced in May 2008, and the syndication of FSP Centre Pointe V Corp. ("Centre Pointe V"), which commenced in December 2009,

were not complete at March 31, 2010.

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

Investment in Sponsored REITs:

At March 31, 2010, the Company held an interest in 14 Sponsored REITs. Twelve were fully syndicated and the Company no longer derives economic benefits or risks from the common stock interest that is retained in them. Two entities were not fully syndicated at March 31, 2010, which are 385 Interlocken and Centre Pointe V. The Company holds a non-controlling preferred stock investment in three of these Sponsored REITs, FSP Phoenix Tower Corp. ("Phoenix Tower"), FSP 303 East Wacker Drive Corp. ("East Wacker") and FSP Grand Boulevard Corp. ("Grand Boulevard"), from which it continues to derive economic benefits and risks.

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

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

Equity in earnings of investment in non-consolidated REITs:

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

	Three Months Ended March 31,	
(in thousands)	2010	2009
Equity in earnings of Sponsored REITs	$ 60	$ 74
Equity in earnings (losses) of Phoenix Tower	14	(2)
Equity in earnings of East Wacker	116	720
Equity in earnings of Grand Boulevard	63	-
	$ 253	$ 792

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

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

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

Equity in earnings of Grand Boulevard is derived from the Company's preferred stock investment in the entity. In May 2009, the Company purchased 175.5 preferred shares or 27.0% of the outstanding preferred shares of Grand Boulevard for $15,049,000 (which represented $17,550,000 at the offering price net of commissions of $1,404,000, loan fees of $1,009,000 and acquisition fees of $88,000 that were excluded).

The Company recorded distributions declared of $1,407,000 and $1,615,000 from non-consolidated REITs during the three months ended March 31, 2010 and 2009, respectively.

Non-consolidated REITs:

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

The operating data below for 2010 includes operations of the 14 Sponsored REITs the Company held an interest in as of March 31, 2010. The operating data for 2009 includes operations of the 12 Sponsored REITs the Company held an interest in as of March 31, 2009.

At March 31, 2010, December 31, 2009 and March 31, 2009, the Company had ownership interests in 14, 14 and 12 Sponsored REITs, respectively. Summarized financial information for these Sponsored REITs is as follows:

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

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

(in thousands)	March 31, 2010	December 31, 2009
Balance Sheet Data (unaudited):		
Real estate, net	$ 721,789	$ 724,517
Other assets	98,139	104,199
Total liabilities	(211,420)	(216,102)
Shareholders' equity	$ 608,508	$ 612,614

(in thousands)	For the Three Months Ended March 31, 2010	2009
Operating Data (unaudited):		
Rental revenues	$ 23,467	$ 25,571
Other revenues	48	146
Operating and maintenance expenses	(12,984)	(13,094)
Depreciation and amortization	(6,153)	(6,096)
Interest expense	(2,211)	(2,296)
Net income	$ 2,167	$ 4,231

Syndication fees and Transaction fees:

The Company provides syndication and real estate acquisition advisory services for Sponsored REITs. Syndication, development and transaction fees from non-consolidated entities amounted to approximately $267,000 and $38,000 for the three months ended March 31, 2010 and 2009, 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 $202,000 and $233,000 for the three months ended March 31, 2010 and 2009, respectively.

The Company typically makes an acquisition loan (“Acquisition Loans”) to each Sponsored REIT which is secured by a mortgage on the borrower’s real estate. These loans enable Sponsored REITs to acquire their respective properties prior to the consummation of the offerings of their equity interests. The Company anticipates that each Acquisition Loan will be repaid at maturity or earlier from the proceeds of the Sponsored REIT’s equity offering. Each Acquisition Loan has a term of two years and bears interest at the same rate paid by FSP Corp. for borrowings under the Revolver. The Company had one Acquisition Loan outstanding for the syndication of FSP Centre Pointe V Corp. as of March

31, 2010 and December 31, 2009. Acquisition Loans are classified as assets held for syndication.

From time-to-time the Company may also make secured loans ("Sponsored REIT Loans") to Sponsored REITs to fund construction costs, capital expenditures, leasing costs and other purposes. Since December 2007, the Company has provided Sponsored REIT Loans in the form of revolving lines of credit to five Sponsored REITs, or to wholly-owned subsidiaries of those Sponsored REITs, and a construction loan to one wholly-owned subsidiary of another Sponsored REIT. The Company anticipates that each Sponsored REIT Loan will be repaid at maturity or earlier from long term financings of the underlying properties, cash flows from the underlying properties or some other capital event. Each Sponsored REIT Loan is secured by a mortgage on the underlying property and has a term of approximately two to three years. Advances under each Sponsored REIT Loan bear interest at a rate equal to the 30-day LIBOR rate plus an agreed upon amount of basis points and most advances also require a 50 basis point draw fee.

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

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

The following is a summary of the Sponsored REIT Loans outstanding as of March 31, 2010:

(dollars in 000's) Sponsored REIT	Maturity Date	Maximum Amount of Loan	Amount Drawn at 31-Mar-10	Interest Rate (1)	Draw Fee (2)	Rate in Effect at 31-Mar-10
Revolving lines of credit						
FSP Highland Place I Corp.	31-Dec-10	$ 5,500	$ 1,125	L+2%	n/a	2.23%
FSP Satellite Place Corp.	31-Mar-12	5,500	4,852	L+3%	0.5%	3.23%
FSP 1441 Main Street Corp.(a)	31-Mar-12	10,800	5,000	L+3%	0.5%	3.23%
FSP 505 Waterford Corp.	30-Nov-11	7,000	-	L+3%	0.5%	
FSP Phoenix Tower Corp. (b)	30-Nov-11	15,000	3,600	L+3%	0.5%	3.23%
Construction loan						
FSP 385 Interlocken Development Corp. (c) (d)	30-Apr-12	42,000	26,748	L+3%	n/a	3.23%
		$ 85,800	$ 41,325			

(1) The interest rate is 30-Day LIBOR rate plus the additional rate indicated.
(2) The draw fee is a percentage of each new advance, and is paid at the time of each new draw.

(a) The Borrower is FSP 1441 Main Street LLC, a wholly-owned subsidiary.
(b) The Borrower is FSP Phoenix Tower Limited Partnership, a wholly-owned subsidiary.
(c) The Borrower is FSP 385 Interlocken LLC, a wholly-owned subsidiary.
(d) The borrower paid a commitment fee of $210,000 at loan origination in March 2009.

The Company recognized interest income and fees from the Aquisition Loans and Sponsored REIT Loans of approximately $331,000 and $312,000 for the three months ended March 31, 2010 and 2009, respectively.

4. Bank note payable and term note payable

As of March 31, 2010, the Company has a bank note payable, which is an unsecured revolving line of credit (the “Revolver”) for advances up to $250 million that matures on August 11, 2011, and a term note payable, which is an unsecured term loan (the “Term Loan”) of $75 million that matures in October 2011 with two one-year extensions available at the Company’s election. The Revolver and the Term Loan are with a group of banks.

The Revolver and Term Loan include restrictions on property liens and require compliance with various financial covenants. Financial covenants include the maintenance of at least $1.5 million in operating cash accounts, a minimum unencumbered cash and liquid investments balance and tangible net worth, limitations on permitted secured debt and compliance with various debt and operating income ratios, as defined in the loan agreement. The Company was in compliance with the Revolver and Term Loan financial covenants as of March 31, 2010 and December 31, 2009, respectively.

Revolver

The Company's Revolver is an unsecured revolving line of credit with a group of banks that provides for borrowings at our election of up to $250 million. The Revolver matures on August 11, 2011. Borrowings under the Revolver bear interest at either the bank's prime rate (3.25% at March 31, 2010) or a rate equal to LIBOR plus 100 basis points (1.25% at March 31, 2010). There were borrowings of $119,968,000 and $109,008,000 at the LIBOR plus 100 basis point rate at a weighted average rate of 1.23% and 1.34% outstanding under the Revolver at March 31, 2010 and December 31, 2009, respectively. The weighted average interest rate

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

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

on amounts outstanding during the three months ended March 31, 2010 and 2009 was approximately 1.23% and 1.53%, respectively; and for the year ended December 31, 2009 was approximately 1.34%.

The Company has drawn on the Revolver and intends to draw on the Revolver in the future for a variety of corporate purposes, including the funding of mortgage loans to Sponsored REITs and the acquisition of properties that it acquires directly for its portfolio. The Company typically causes mortgage loans to Sponsored REITs to be secured by a first mortgage against the real property owned by the Sponsored REIT. The Company makes these loans to enable a Sponsored REIT to acquire real property prior to the consummation of the offering of its equity interests, and the loan is repaid out of the offering proceeds. The Company also may make secured loans to Sponsored REITs for the purpose of funding capital expenditures, costs of leasing or for other purposes which would be repaid from long-term financing of the property, cash flows from the property or a capital event.

Term Loan

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

5. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of Company shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at March 31, 2010 and 2009.

6. Financial Instruments: Derivatives and Hedging

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

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

The following table summarizes the notional and fair value of our derivative financial instrument at March 31, 2010. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks (dollars in thousands).

	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
Interest Rate Swap	$ 75,000	5.840%	10/2008	10/2011	$ (1,995)

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

6. Financial Instruments: Derivatives and Hedging (continued)

On March 31, 2010, the derivative instrument was reported as an obligation at its fair value of approximately $2.0 million. This is included in other liabilities: derivative termination value on the condensed consolidated balance sheet at March 31, 2010. Offsetting adjustments are represented as deferred gains or losses in accumulated other comprehensive income of $2.0 million. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified into earnings as an adjustment to interest expense in the same periods in which the hedged interest payments affect earnings. We estimate that approximately $1.3 million of the current balance held in accumulated other comprehensive income will be reclassified into earnings within the next 12 months. We are hedging exposure to variability in future cash flows for forecasted transactions in addition to anticipated future interest payments on existing debt.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There is an established fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The related accounting pronouncement describes three levels of inputs that may be used to measure fair value. Financial assets and liabilities recorded on the condensed consolidated balance sheets at fair value are categorized based on the inputs to the valuation techniques as follows:

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

7. Stockholders’ Equity

As of March 31, 2010, the Company had 79,680,705 shares of common stock outstanding.

On September 23, 2009, the Company completed an underwritten public offering of 9.2 million shares of its common stock (including 1.2 million shares issued as a result of the full exercise of an overallotment option by the underwriter) at a price to the public of $13.00 per share. The proceeds from this public offering, net of underwriter discounts and offering costs, totaled approximately $114.7 million.

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

Quarter Paid	Dividends Per Share	Total Dividends
First quarter of 2010	$ 0.19	$ 15,139
First quarter of 2009	$ 0.19	$ 13,391

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8. Business Segments

The Company operates in two business segments: real estate operations (including real estate leasing, making interim acquisition loans and other financing and asset/property management) including discontinued operations and investment banking/investment services (including real estate acquisition, development and broker/dealer services). The Company has identified these segments because this information is the basis upon which management makes decisions regarding resource allocation and performance assessment. The accounting policies of the reportable segments are the same as those described in “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, 2009. The Company’s operations are located in the United States of America.

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

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

The calculation of FFO by business segment for the three months ended March 31, 2010 and 2009 are shown in the following table:

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
Three Months Ended March 31, 2010			
Net income (loss)	$ 6,041	$ (479)	$ 5,562
Equity in income of non-consolidated REITs	(253)	-	(253)
Distributions from non-consolidated REITs	1,407	-	1,407
Depreciation and amortization	9,901	33	9,934
Funds From Operations	$ 17,096	$ (446)	$ 16,650
Three Months Ended March 31, 2009			
Net income (loss)	$ 8,586	$ (778)	$ 7,808

Equity in income of non-consolidated REITs		(792)		-		(792)
Distributions from non-consolidated REITs		1,615		-		1,615
Depreciation and amortization		8,680		27		8,707
Funds From Operations	$	18,089	$	(751)	$	17,338

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8. Business Segments (continued)

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

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
March 31, 2010:			
Revenue	$ 31,341	$ 267	$ 31,608
Interest income	8	-	8
Interest expense	1,652	-	1,652
Capital expenditures	1,685	-	1,685
Investment in non-consolidated REITs	91,787	-	91,787
Identifiable assets	$ 1,149,090	$ 3,224	$ 1,152,314
March 31, 2009:			
Revenue	$ 30,381	$ 38	$ 30,419
Interest income	34	2	36
Interest expense	1,577	-	1,577
Capital expenditures	1,739	101	1,840
Investment in non-consolidated REITs	82,388	-	82,388
Identifiable assets	$ 1,015,704	$ 2,804	$ 1,018,508

9. Income Taxes

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

One such restriction is that the Company generally cannot own more than 10% of the voting power or value of the securities of any one issuer unless the issuer is itself a REIT or a taxable REIT subsidiary (“TRS”). In the case of a TRS, the Company’s ownership of securities in all TRS’s generally cannot exceed 20% prior to 2009 and 25% beginning in 2009 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. The Company has two subsidiaries, FSP Investments LLC, which is part of the Company’s investment banking/investment services segment, and FSP Protective TRS Corp., which are TRSs operating as taxable corporations under the Code.

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.

Accrued interest and penalties will be recorded as income tax expense, if the Company records a liability in the future. 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 2006 and thereafter.

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9. Income Taxes (continued)

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

	For the Three Months Ended March 31,	
(in thousands)	2010	2009
Federal income tax benefit at statutory rate	$ (251)	$ (364)
Increase (decrease) in taxes resulting from:		
State income tax benefit, net of federal impact	(46)	(67)
Valuation allowance on tax benefit	172	67
Revised Texas franchise tax	57	