

FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-K
February 23, 2009

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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

For the transition period from _____ to _____

Commission File No. 001-32470

FRANKLIN STREET PROPERTIES CORP.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

401 Edgewater Place, Suite 200, Wakefield,
Massachusetts
(Address of principal executive offices)

01880-6210
(Zip Code)

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

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

Title of each class:	Name of exchange on which registered:
Common Stock, \$.0001 par value per share	NYSE Alternext US

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

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

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K, Continued

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. As of June 30, 2008 the aggregate market value was approximately \$748,026,234.

There were 70,480,705 shares of Common Stock outstanding as of February 20, 2009.

Documents incorporated by reference: The registrant intends to file a definitive proxy statement pursuant to Regulation 14A, promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the registrant's Annual Meeting of Stockholders to be held on May 15, 2009 (the "Proxy Statement"). The information required in response to Items 10 – 14 of Part III of this Form 10-K, other than that contained in Part I under the caption, "Directors and Executive Officers of FSP Corp.," is hereby incorporated by reference to the Proxy Statement.

TABLE OF CONTENTS

FRANKLIN STREET PROPERTIES CORP.		1
PART I		1
Item 1.	Business	1
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	12
Item 2.	Properties	13
Item 3.	Legal Proceedings	16
Item 4.	Submission of Matters to a Vote of Security Holders	16
	Directors and Executive Officers of FSP Corp.	16
PART II		19
Item 5.	Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
	Stock Performance Graph	21
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 8.	Financial Statements and Supplementary Data	46
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	46
Item 9A.	Controls and Procedures	46
Item 9B.	Other information	47
PART III		48
Item 10.	Directors, Executive Officers and Corporate Governance	48
Item 11.	Executive Compensation	48
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	48
Item 13.	Certain Relationships and Related Transactions, and Director Independence	48
Item 14.	Principal Accountant Fees and Services	48
PART IV		49
Item 15.	Exhibits and Financial Statement Schedules	49
SIGNATURES		50

PART I

Item 1. Business

History

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

On June 2, 2005, we began trading our common stock on the American Stock Exchange under the symbol "FSP". The American Stock Exchange was acquired by NYSE Euronext on October 1, 2008, and its name was changed to NYSE Alternext US. Our common stock continues to trade on the NYSE Alternext US under the symbol "FSP".

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

On May 15, 2008, we acquired a real estate investment trust by merger, which we refer to as Park Ten Development. In this merger we paid cash consideration to the holders of preferred stock in Park Ten Development of approximately \$127,290 per share for a total purchase price of approximately \$35.4 million. As a result of the merger, we acquired all of the assets previously held by Park Ten Development.

Our Business

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

- Real estate operations, including rental income from real estate leasing, interest income from secured loans made for interim acquisition or other purposes and fee income from asset/property management.
- Investment banking/investment services, which generate brokerage commissions, loan origination fees, development services and other fees related to the organization of single-purpose entities that own real estate and the private placement of equity in those entities. We refer to these entities which are organized as corporations and operated in a manner intended to qualify as real estate investment trusts, as Sponsored REITs. Previously these entities were called Sponsored Entities and were organized as partnerships.

From time-to-time we may acquire real estate or invest in real estate by purchasing shares of preferred stock offered in the syndications of our Sponsored REITs. We may also pursue on a selective basis the sale of our properties to take advantage of the value creation and demand for our properties, or for geographic or property specific reasons.

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

Real Estate

We own and operate a portfolio of real estate consisting of 29 properties as of December 31, 2008, which includes 28 office buildings and one industrial use property. We derive rental revenue from income paid to us by tenants of these properties. From time-to-time we dispose of properties generating gains or losses in an ongoing effort to improve and upgrade our portfolio. See Item 2 of this Annual Report on Form 10-K for more information about our properties. We also hold investments in two Sponsored REITs as of December 31, 2008, which we record our share of income or loss under the equity method of accounting, and from which we received dividends.

FSP Corp. typically makes an acquisition loan to each Sponsored REIT which is secured by a mortgage on the borrower's real estate. The loans produce revenue in the form of interest and loan origination fees payable to FSP Corp. These loans typically are repaid out of the proceeds of the borrower's equity offering. From time-to-time we may also make secured loans to Sponsored REITs to fund capital expenditures, costs of leasing or for other purposes. We have made three such loans in the form of revolving line of credit facilities to three of our Sponsored REITs. We anticipate that advances made under these facilities will be repaid at their maturity dates or earlier from long-term financings of the underlying properties, cash flows from the underlying properties or capital events.

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

Investment Banking/Investment Services

Through our subsidiary FSP Investments LLC, which acts as a real estate investment banking firm and broker/dealer, we organize Sponsored REITs, and sell equity in them through private placements exempt from registration under the Securities Act of 1933. These single-purpose entities each typically acquire a single real estate asset. FSP Investments raises capital required to equitize these entities through best efforts offerings to "accredited investors" within the meaning of Regulation D of the Securities Act. We retain 100% of the common stock interest in the Sponsored REIT, though there is virtually no economic benefit or risk related to the common stock subsequent to the completion of the syndication. Since 1997, FSP Investments has sponsored the syndication of 48 entities, 13 of which were Sponsored Entities, and 35 of which were Sponsored REITs.

FSP Investments derives revenue from syndication and other transaction fees received in connection with the sale of preferred stock in the Sponsored REITs and from fees paid by the Sponsored REITs for its services in identifying, inspecting and negotiating to purchase real properties on their behalf. FSP Investments is a registered broker/dealer with the Securities and Exchange Commission and is a member of the Financial Industry Regulatory Authority, or FINRA. We have made an election to treat FSP Investments as a "taxable REIT subsidiary" for federal income tax purposes.

Investment Objectives

Our investment objectives are to increase the cash available for distribution in the form of dividends to our stockholders and to create shareholder value by increasing revenue from rental, dividend and interest income, net gains from sales of properties and investment banking services. We expect that, through FSP Investments, we will continue to organize and cause the offering of Sponsored REITs in the future and that we will continue to derive investment banking/investment services income from such activities, as well as real estate revenue from loan origination fees, interest income and fees from asset management, property management and development. We may also acquire additional real properties by direct cash purchase or by acquisition of Sponsored REITs, though we have

no obligation to acquire or offer to acquire any Sponsored REIT in the future. In addition, we may invest in real estate by purchasing shares of preferred stock offered in the syndications of our Sponsored REITs.

From time to time, as market conditions warrant, we may sell properties owned by us. We did not sell any properties in 2008. In 2007 we sold five properties. In 2006 we sold six properties and reached an agreement to sell another property. When we sell a property, we either distribute some or all of the sale proceeds to our stockholders as a distribution or retain some or all of such proceeds for investment in real properties or other corporate activities.

We may acquire, and have acquired, real properties in any geographic area of the United States and of any property type. We own 29 properties that are located in 13 different states. Of the 29 properties, 28 are office buildings and one is an industrial use property. See Item 2 of this Annual Report on Form 10-K for more information about our properties.

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

- we seek to buy or develop investment properties at a price which produces value for investors and avoid overpaying for real estate merely to outbid competitors;
- we seek to buy or develop properties in excellent locations with substantial infrastructure in place around them and avoid investing in locations where the future construction of such infrastructure is speculative;
- we seek to buy or develop properties that are well-constructed and designed to appeal to a broad base of users and avoid properties where quality has been sacrificed for cost savings in construction or which appeal only to a narrow group of users;
- we aggressively manage, maintain and upgrade our properties and refuse to neglect or undercapitalize management, maintenance and capital improvement programs; and
- we believe that we have the ability to hold properties through down cycles because we generally do not have significant leverage on the Company, which could place them at risk of foreclosure. As of February 20, 2009, none of our 29 properties was subject to mortgage debt, although six Sponsored REITs organized by us have incurred mortgage debt.

Revolver

We currently have an unsecured revolving line of credit, which we refer to as the Revolver, with a group of banks that provides for borrowings at our election of up to \$250,000,000 and that matures on August 11, 2011. Borrowings under the Revolver bear interest at either the bank's prime rate (3.25% at December 31, 2008) or a rate equal to LIBOR plus 100 basis points (1.5% at December 31, 2008). There were borrowings of \$67,468,000 and \$84,750,000 at the LIBOR plus 100 basis point rate at a weighted average rate of 2.39% and 6.2% outstanding under the Revolver at December 31, 2008 and 2007, respectively. The weighted average interest rate on amounts outstanding during 2008 and 2007 was approximately 3.61% and 6.51%, respectively. As of December 31, 2008, we were in compliance with all bank covenants required under the Revolver.

We have drawn on the Revolver, and intend to draw on the Revolver in the future for a variety of corporate purposes, including the funding of interim mortgage loans to Sponsored REITs and the acquisition of properties that we acquire directly for our portfolio. We typically cause mortgage loans to Sponsored REITs to be secured by a first mortgage against the real property owned by the Sponsored REIT. We make these loans to enable a Sponsored REIT to acquire real property prior to the consummation of the offering of its equity interests, and the loan is repaid out of the offering proceeds. We 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

We also have a \$75 million unsecured term loan facility, which we refer to as the 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, we have the right to extend the initial maturity date for up to two successive one-year periods, or until October 15, 2013 if both extensions are exercised. We 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. As of December 31, 2008, we were in compliance with all bank covenants required under the Term Loan.

Hedging Activities

On October 15, 2008, we entered into an interest rate swap agreement that fixed the interest rate on our Term Loan at 5.84% for three years, which matches the initial three-year term of the Term Loan. We may engage in hedging transactions to protect us from interest rate fluctuations in the future. These transactions may include interest rate swaps, the purchase or sale of interest rate collars, caps or floors and other hedging instruments. These instruments may be used to hedge as much of the interest rate risk as we determine is in the best interest of our stockholders, given the cost of such hedges and the need to maintain our qualification as a REIT. We may elect to bear a level of interest rate risk that could otherwise be hedged when we believe based on all relevant facts, that bearing such risk is advisable.

Competition

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

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

With respect to our investment banking and investment services business, we face competition for investment dollars from every other kind of investment, including stocks, bonds, mutual funds, exchange traded funds and other real-estate related investments, including other REITs. Some of our competitors have significantly more resources than we do and are able to advertise their investment products. Because the offerings of the Sponsored REITs are made pursuant to an exemption from registration under the Securities Act, FSP Investments may not advertise the Sponsored REITs or otherwise engage in any general solicitation of investors to purchase interests in the Sponsored REITs, which may affect our ability to compete for investment dollars. In addition, because we offer the Sponsored REITs only to accredited investors, our pool of potential investment clients is smaller than that available to some other financial institutions. Our competition is not only with alternative types of investments, but also with larger market forces (including the current disruptions in the U.S. economy described above, changes in interest rates and tax treatment) beyond our control that may affect the propensity and the ability of investors to invest in Sponsored REITs.

Employees

We had 39 full-time and 1 part-time employees as of February 20, 2009.

4

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, and, in accordance therewith, we file reports and other information with the Securities and Exchange Commission (SEC). The reports and other information we file can be inspected and copied at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Such reports and other information may also be obtained from the web site that the SEC maintains at <http://www.sec.gov>. Further information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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

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

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

Item 1A

Risk Factors

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

Economic conditions in the United States could have a material adverse impact on our earnings and financial condition.

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

If we are unable to fully syndicate a Sponsored REIT, we may be required to keep a balance outstanding on the Revolver or use our cash balance to repay the Revolver which may reduce cash available for distribution to our stockholders or for other corporate purposes.

We typically draw on the Revolver to make an interim mortgage loan to a Sponsored REIT. The interim mortgage loan enables the Sponsored REIT to acquire real property prior to the consummation of the offering of its equity interests and is typically secured by a first mortgage against the real property acquired. 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 the Revolver through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders or for other corporate purposes.

Covenants in our debt agreements could adversely affect our financial condition.

Our debt agreements contain customary restrictions, requirements and other limitations on our ability to incur indebtedness, including loan to value ratios, debt service coverage ratios, unencumbered liquidity requirements, account balance requirements, net worth requirements, total debt to asset ratios and secured debt to total asset ratios, which we must maintain. Our continued ability to borrow under the Revolver is subject to compliance with our financial and other covenants. Failure to comply with such covenants could cause a default under the applicable debt agreement, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms.

We may use debt financing to purchase properties directly for our real estate portfolio, to make loans to Sponsored REITs or for other corporate purposes. If we are unable to obtain debt financing from these or other sources, or to refinance existing indebtedness upon maturity, our financial condition and results of operations could be materially adversely affected. If we breach covenants in our debt agreements, the lenders can declare a default. A default under our debt agreements could result in difficulty financing growth in both the investment banking/investment services and real estate segments of our business and could also result in a reduction in the cash available for distribution to our stockholders or for other corporate purposes. In addition, our debt agreements include cross-default provisions so that a default under one constitutes a default under the other. Defaults under our debt agreements could materially and adversely affect our financial condition and results of operations.

An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets.

As of December 31, 2008, we had approximately \$142 million of indebtedness that bears interest at variable rates, and we may incur more of such indebtedness in the future. Approximately \$75 million of this variable rate debt is fixed through an interest rate swap contract at 5.84% per annum through October 15, 2011. If interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow, our ability to pay principal and interest on our debt and our ability to make distributions to our stockholders. In addition, rising interest rates could limit our ability to refinance existing debt when it matures. From time to time, we may enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risk that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. In addition, an increase in interest rates could decrease the amount third-parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other condition.

If we are not able to collect sufficient rents from each of our owned real properties or interest on secured loans we fund, 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 or we do not collect interest income from loans we fund, our revenues 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.

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, an Executive Vice President and a Director; John G. Demeritt, our Chief Financial Officer and an Executive Vice President; Janet Prier Notopoulos, an Executive Vice President and a Director; Scott H. Carter, our General Counsel, Assistant Secretary and an Executive Vice President; 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. On July 21, 2008, we announced that we had reduced our regular quarterly dividend from \$0.31 per share of common stock to \$0.19 per share of common stock in order to better align our regular quarterly dividends with the results of our current real estate operations only, without taking into account the results of our less predictable transactional operations.

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 February 20, 2009, 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 of 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 the Revolver, 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 owned on April 30, 2006, a property in Georgia in June 2006 and a property in Colorado in December 2006. We also acquired a property in Maryland in June 2007, a property in Texas by merger in May 2008, a property in Virginia in December 2008 and a property in Missouri in December 2008. 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:

- changes in general and local economic conditions;
- the supply or demand for particular types of properties in particular markets;
 - changes in market rental rates;
 - the impact of environmental protection laws;
 - changes in tax, real estate and zoning laws; and
- 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 are higher, we may have to reduce distributions to our stockholders. Typical lease terms range from five to ten years, so up to approximately 20% of our rental revenue from commercial properties could be expected to expire each year.

We face risks from geographic concentration.

The properties in our portfolio as of December 31, 2008, by aggregate square footage, are distributed geographically as follows: Southwest – 27.5%, West – 20.1%, Midwest – 19.8%, Northeast – 18.3% and Southeast – 14.2%. However, within certain of those regions, we hold a larger concentration of our properties in Dallas, Texas – 17.1%, Greater Denver, Colorado – 12.6% and Houston, Texas – 10.4%. 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 both local market conditions and national and global economic 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. While we cannot predict when existing vacancy will be leased or if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, we expect to renew or sign new leases at current market rates for locations in which the buildings are located, which in some cases may be below the expiring rates.

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:

- future laws, ordinances or regulations will not impose any material environmental liability;
- 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;
- 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
- environmental conditions, such as the growth of bacteria and toxic mold in heating and ventilation systems or on walls, will not occur at our properties and pose a threat to human health.

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

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

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 face risks associated with our Tenants being designated "Prohibited Persons" by the Office of Foreign Assets Control.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury (“OFAC”) maintains a list of persons designated as terrorists or who are otherwise blocked or banned (“Prohibited Persons”). OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons (the “OFAC Requirements”). Our current leases and certain other agreements require the other party to comply with the OFAC Requirements. If a tenant or other party with whom we contract is placed on the OFAC list we may be required by the OFAC Requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in markets that may be the targets of actual or threatened terrorism attacks in the future. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially. See also “We may lose capital investment or anticipated profits if an uninsured event occurs.”

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:

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

Our employee retention plan may prevent changes in control.

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

The price of our common stock may vary.

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

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

The provisions of the tax code governing the taxation of real estate investment trusts are very technical and complex, and although we expect that we will be organized and will operate in a manner that will enable us to meet such requirements, no assurance can be given that we will always succeed in doing so. In addition, as a result of our acquisition of the target REITs pursuant to the mergers, we might no longer qualify as a real estate investment trust. We could lose our ability to so qualify for a variety of reasons relating to the nature of the assets acquired from the target REITs, the identity of the stockholders of the target REITs who become our stockholders or the failure of one or more of the target REITs to have previously qualified as a real estate investment trust. Moreover, you should note that if one or more of the REITs that we acquired in May 2008, April 2006, April 2005 or June 2003 did not qualify as a real estate investment trust immediately prior to the consummation of its acquisition, we could be disqualified as a REIT as a result of such acquisition.

If in any taxable year we do not qualify as a real estate investment trust, we would be taxed as a corporation and distributions to our stockholders would not be deductible by us in computing our taxable income. In addition, if we were to fail to qualify as a real estate investment trust, we could be disqualified from treatment as a real estate investment trust in the year in which such failure occurred and for the next four taxable years and, consequently, we would be taxed as a regular corporation during such years. Failure to qualify for even one taxable year could result in a significant reduction of our cash available for distribution to our stockholders or could require us to incur indebtedness or liquidate investments in order to generate sufficient funds to pay the resulting federal income tax liabilities.

Provisions in our organizational documents may prevent changes in control.

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

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

Staggered Board. Our board of directors is divided into three classes. The terms of these classes will expire in 2009, 2010 and 2011, 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 1B.

Unresolved Staff Comments.

None.

Item 2.

Properties

Set forth below is information regarding our properties as of December 31, 2008:

Property Location	Date of Purchase or Merged Entity Date of Purchase	Approx. Square Feet	Percent of 12/31/08	Approx. Number of Tenants	Major Tenants ¹
Office 1515 Mockingbird Lane Charlotte, NC 28209	7/1/97	109,550	89%	79	Primary Physician Care
678-686 Hillview Drive Milpitas, CA 95035	3/9/99	36,288	100%	1	Headway Technologies, Inc
600 Forest Point Circle Charlotte, NC 28273	7/8/99	62,212	100%	2	American Nat'l Red Cross Cellco Partnership d/b/a Verizon Wireless
18000 W. Nine Mile Rd. Southfield, MI 48075	9/30/99	214,697	88%	6	Int'l Business Machines Corp.
4820 & 4920 Centennial Blvd. Colorado Springs, CO 80919	9/28/00	110,730	94%	4	Comcast of Colorado DALSA Colorado Springs Walter Kidde Portable Equipment AMI Semiconductor, Inc.
14151 Park Meadow Drive Chantilly, VA 20151	3/15/01	134,850	100%	2	CACI, Inc. – Federal
1370 & 1390 Timberlake Manor Parkway, Chesterfield, MO 63017	5/24/01	232,766	100%	6	RGA Reinsurance Company AMDOCS, Inc.
501 & 505 South 336th Street Federal Way, WA 98003	9/14/01	117,010	14%	3	See Footnote ²
50 Northwest Point Rd. Elk Grove Village, IL 60005	12/5/01	176,848	100%	1	Citicorp Credit Services

1350 Timberlake Manor Parkway Chesterfield, MO 63017	3/4/02	116,312	100%	7	RGA Reinsurance Company Metropolitan Life Ins. Company Wachovia Securities, LLC Ab Mauri Food d/b/a Fleischmanns
--	--------	---------	------	---	---

1 Major tenants are tenants who occupy 10% or more of the space in an individual property.
2 No Tenant occupies more than 10% of the space

Property Location	Date of Purchase or Merged Entity Date of Purchase	Approx. Square Feet	Percent of Leased as of 12/31/08	Approx. Number of Tenants	Major Tenants 1
16285 Park Ten Place Houston, TX 77084	6/27/02	155,715	96%	9	Technip USA, Inc. TMI, Inc. a/k/a Trendmaker Homes
2730 - 2760 Junction Avenue 408-410 East Plumeria San Jose, CA 95134	8/27/02	145,951	81%	2	Techwell, Inc County of Santa Clara
15601 Dallas Parkway Addison, TX 75001	09/30/02	293,787	90%	8	Jones Lang LaSalle Behringer Harvard Holdings, LLC Noble Royalties, Inc.
1500 & 1600 Greenville Ave. Richardson, TX 75080	3/3/03	298,766	100%	3	Tektronix Texas, LLC. ARGO Data Resource Corp.
6500 & 6560 Greenwood Plaza Englewood, CO 80111	2/24/05	199,077	100%	1	New Era of Networks, Inc. (Sybase)
3815-3925 River Crossing Pkwy Indianapolis, IN 46240	7/6/05	205,059	98%	18	Crowe, Chizek & Company, LLP Somerset CPAs, P.C. The College Network
5055 & 5057 Keller Springs Rd. Addison, TX 75001	2/24/06	218,934	83%	31	See Footnote2
2740 North Dallas Parkway					