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

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

FORM 10 - Q

(Mark One)

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

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________.

Commission File Number: 001-32470

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

Maryland	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 July 31, 2009 was 70,480,705.

Franklin Street Properties Corp.

Form 10-Q

Quarterly Report
June 30, 2009

Table of Contents

			Page
Part I.	Financial Information		
	Item 1.	Financial Statements	
		Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008	4
		Condensed Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008	5
		Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008	6
		Condensed Consolidated Statements of Other Comprehensive Income for the three and six months ended June 30, 2009 and 2008	7
		Notes to Condensed Consolidated Financial Statements	8-20
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21-30
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	31
	Item 4.	Controls and Procedures	32
Part II.	Other Information		
	Item 1.	Legal Proceedings	33
	Item 1A.	Risk Factors	33
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
	Item 3.	Defaults Upon Senior Securities	34
	Item 4.	Submission of Matters to a Vote of Security Holders	34
	Item 5.	Other Information	34
	Item 6.	Exhibits	34

Signatures	35

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

Acquired unfavorable real estate leases, less accumulated amortization of \$2,266, and \$1,779, respectively		4,954		5,044
Total liabilities		229,903		176,436
Commitments and contingencies				
Stockholders' Equity:				
Preferred stock, \$.0001 par value, 20,000,000 shares authorized, none issued or outstanding		-		-
Common stock, \$.0001 par value, 180,000,000 shares authorized, 70,480,705 and 70,480,705 shares issued and outstanding, respectively		7		7
Additional paid-in capital		889,019		889,019
Accumulated other comprehensive loss		(2,394)		(3,099)
Accumulated distributions in excess of accumulated earnings		(51,039)		(36,930)
Total stockholders' equity		835,593		848,997
Total liabilities and stockholders' equity	\$	1,065,496	\$	1,025,433

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

4

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

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

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

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

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

and acquired real estate leases in conjunction with
merger

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

6

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

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

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

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

Organization

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

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

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

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

Properties

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

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

Basis of Presentation

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

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

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

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

Financial Instruments

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

Recent Accounting Standards

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

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

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

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133." SFAS No. 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

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

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

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

Recent Accounting Standards

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

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

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

2. Investment Banking/Investment Services Activity

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

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

FSP 385 Interlocken Development Corp.	Broomfield, CO		
	Total	$	550

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

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

Investment in Sponsored REITs:

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

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

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

Equity in earnings of investment in non-consolidated REITs:

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

	Six Months Ended June 30,	
(in thousands)	2009	2008
Equity in earnings of Sponsored REITs	$ 141	$ 103
Equity in earnings of Park Ten Development	-	9
Equity in earnings of Phoenix Tower	1	14
Equity in earnings of East Wacker	1,064	1,361
Equity in earnings of Grand Boulevard	29	-
	$ 1,235	$ 1,487

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

Equity in earnings of Park Ten Development was derived from the Company's preferred stock investment in the entity. In September 2005, the Company acquired 8.5 preferred shares or 3.05% of the authorized preferred shares of Park Ten Development via a non-monetary exchange of land valued at $850,000. The Company acquired Park Ten Development by merger on May 15, 2008, which merger was accounted for as a purchase, and the acquired assets and liabilities were recorded at their fair value.

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

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

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

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

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

Non-consolidated REITs:

The Company has in the past acquired by merger entities similar to the Sponsored REITs. On March 19, 2008, the Company entered into an agreement and plan of merger to acquire Park Ten Development by merger for a total purchase price of approximately $35.4 million. Upon completion of the acquisition on May 15, 2008, the holders of preferred stock in Park Ten Development received cash consideration of approximately $127,290 per share. The acquisition was effected by merging a wholly-owned subsidiary of the Company with and into Park Ten Development. Consummation of the acquisition required the approval of Park Ten Development's stockholders. The Company’s business model for growth includes the potential acquisition by merger in the future of Sponsored REITs. The Company has no legal or any other enforceable obligation to acquire or to offer to acquire any Sponsored REIT. In addition, any offer (and the related terms and conditions) that might be made in the future to acquire any Sponsored REIT would require the approval of the boards of directors of the Company and the Sponsored REIT and the approval of the shareholders of the Sponsored REIT.

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

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

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

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

(in thousands)	June 30, 2009	December 31, 2008
Balance Sheet Data (unaudited):		
Real estate, net	$ 668,145	$ 683,218
Other assets	98,349	114,015
Total liabilities	(180,030)	(189,435)
Shareholders' equity	$ 586,464	$ 607,798

(in thousands)	For the Six Months Ended June 30, 2009	2008
Operating Data (unaudited):		
Rental revenues	$ 48,812	$ 51,031
Other revenues	251	1,046
Operating and maintenance expenses	(25,248)	(25,412)
Depreciation and amortization	(12,090)	(12,104)
Interest expense	(4,160)	(5,725)
Net income	$ 7,565	$ 8,836

Syndication fees and Transaction fees:

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

Management fees and interest income from loans:

Asset management fees range from 1% to 5% of collected rents and the applicable contracts are cancelable with 30 days notice. Asset management fee income from non-consolidated entities amounted to approximately $448,000 and $473,000 for the six months ended June 30, 2009 and 2008, respectively.

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

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

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

Sponsored REIT Loans

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

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

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

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

(a) The Borrower is FSP 1441 Main Street LLC, a wholly-owned subsidiary
(b) The Borrower is FSP Phoenix Tower Limited Partnership, a wholly-owned subsidiary

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

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

4. Bank note payable and term note payable

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

The Revolver and Term Loan include restrictions on property liens and require compliance with various financial covenants. Financial covenants include the maintenance of at least $1,500,000 in operating cash accounts, a minimum unencumbered cash and

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

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

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

Revolver

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

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

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

Term Loan

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

5. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of Company shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at June 30, 2009 and 2008.

6. Financial Instruments: Derivatives and Hedging

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

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

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

6. Financial Instruments: Derivatives and Hedging (continued)

The following table summarizes the notional and fair value of our derivative financial instrument at June 3