FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-Q
April 26, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 - Q

(Mark One)

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

For the quarterly period ended March 31, 2016.

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

(Address of principal executive offices)(Zip Code)

(781) 557-1300

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

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

The number of shares of common stock outstanding as of April 22, 2016 was 100,187,405.

Franklin Street Properties Corp.
Form 10-Q

Quarterly Report
March 31, 2016

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PART I — FINANCIAL INFORMATION

Item 1.Financial Statements

Franklin Street Properties Corp.

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except share and par value amounts)	March 31, 2016	December 31, 2015
Assets:		
Real estate assets:		
Land	$ 168,120	$ 170,021
Buildings and improvements	1,625,819	1,637,066
Fixtures and equipment	2,649	2,528
	1,796,588	1,809,615
Less accumulated depreciation	309,307	299,991
Real estate assets, net	1,487,281	1,509,624
Acquired real estate leases, less accumulated amortization of $117,134 and $112,844, respectively	99,102	108,046
Investment in non-consolidated REITs	76,707	77,019
Asset held for sale	15,921	—
Cash and cash equivalents	14,316	18,163
Restricted cash	10	23
Tenant rent receivables, less allowance for doubtful accounts of $130 and $130, respectively	3,691	2,898
Straight-line rent receivable, less allowance for doubtful accounts of $50 and $50, respectively	49,696	48,502
Prepaid expenses and other assets	5,943	5,484
Related party mortgage loan receivables	79,575	118,641
Other assets: derivative asset	—	1,132
Office computers and furniture, net of accumulated depreciation of $1,372 and $1,333, respectively	438	484
Deferred leasing commissions, net of accumulated amortization of $21,035 and $20,002, respectively	28,705	28,999
Total assets	$ 1,861,385	$ 1,919,015

Liabilities and Stockholders' Equity:
Liabilities:

Bank note payable	$ 265,000	$ 290,000
Term loans payable, less unamortized financing costs of $2,120 and $2,353, respectively	617,880	617,647
Accounts payable and accrued expenses	37,791	49,489
Accrued compensation	1,274	3,726
Tenant security deposits	4,433	4,829
Other liabilities: derivative liability	13,226	8,243
Acquired unfavorable real estate leases, less accumulated amortization of $9,822 and $9,368, respectively	8,697	9,425
Total liabilities	948,301	983,359
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, 100,187,405 and 100,187,405 shares issued and outstanding, respectively	10	10
Additional paid-in capital	1,273,556	1,273,556
Accumulated other comprehensive loss	(13,226)	(7,111)
Accumulated distributions in excess of accumulated earnings	(347,256)	(330,799)
Total stockholders' equity	913,084	935,656
Total liabilities and stockholders' equity	$ 1,861,385	$ 1,919,015

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

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Franklin Street Properties Corp.

Condensed Consolidated Statements of Income

(Unaudited)

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2016	2015
Revenues:		
Rental	$ 58,360	$ 59,013
Related party revenue:		
Management fees and interest income from loans	1,433	1,473
Other	20	21
Total revenues	59,813	60,507
Expenses:		
Real estate operating expenses	15,292	15,356
Real estate taxes and insurance	9,150	10,048
Depreciation and amortization	22,445	22,672
Selling, general and administrative	3,530	3,691
Interest	6,433	6,187
Total expenses	56,850	57,954
Income before interest income, equity in losses of non-consolidated REITs, gain on sale of properties and taxes on income	2,963	2,553
Interest income	—	1
Equity in losses of non-consolidated REITs	(286)	(322)
Gain on sale of properties, less applicable income tax	—	10,462
Income before taxes on income	2,677	12,694
Taxes on income	98	161
Net income	$ 2,579	$ 12,533
Weighted average number of shares outstanding, basic and diluted	100,187	100,187
Net income per share, basic and diluted	$ 0.03	$ 0.13

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

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Franklin Street Properties Corp.

Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(Unaudited)

	For the Three Months Ended March 31,	
(in thousands)	2016	2015
Net income	$ 2,579	$ 12,533
Other comprehensive loss:		
Unrealized loss on derivative financial instruments	(6,115)	(4,814)
Total other comprehensive loss	(6,115)	(4,814)
Comprehensive income (loss)	$ (3,536)	$ 7,719

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

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Franklin Street Properties Corp.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	For the Three Months Ended March 31,	
(in thousands)	2016	2015
Cash flows from operating activities:		
Net income	$ 2,579	$ 12,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	22,962	23,189
Amortization of above market lease	81	6
Gain on sale of properties, less applicable income tax	—	(10,462)
Equity in losses of non-consolidated REITs	286	322
Changes in operating assets and liabilities:		
Restricted cash	13	686
Tenant rent receivables	(793)	146
Straight-line rents	(1,275)	(69)
Lease acquisition costs	(199)	(3)
Prepaid expenses and other assets	(791)	283
Accounts payable, accrued expenses and other items	(10,374)	(7,706)
Accrued compensation	(2,452)	(2,517)
Tenant security deposits	(396)	(230)
Payment of deferred leasing commissions	(1,825)	(1,116)
Net cash provided by operating activities	7,816	15,062
Cash flows from investing activities:		
Property improvements, fixtures and equipment	(6,699)	(4,298)
Office computers and furniture	(21)	—
Distributions in excess of earnings from non-consolidated REITs	27	27
Repayment of related party mortgage receivable	39,066	—
Proceeds received on sales of real estate assets	—	47,671
Changes in deposits on real estate assets	—	(4,000)
Net cash provided by investing activities	32,373	39,400
Cash flows from financing activities:		
Distributions to stockholders	(19,036)	(19,036)
Borrowings under bank note payable	15,000	20,000
Repayments of bank note payable	(40,000)	(48,000)
Net cash used in financing activities	(44,036)	(47,036)
Net increase (decrease) in cash and cash equivalents	(3,847)	7,426
Cash and cash equivalents, beginning of year	18,163	7,519
Cash and cash equivalents, end of period	$ 14,316	$ 14,945
Non-cash investing and financing activities:		

Accrued costs for purchases of real estate assets	$ 1,887	$ 2,998

The accompanying notes are an integral part of these condensed 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

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. FSP Property Management LLC provides asset management and property management services. The Company also has a non-controlling common stock interest in eight corporations organized to operate as real estate investment trusts ("REIT") and a non-controlling preferred stock interest in two of those REITs. Collectively, the eight REITs are referred to as the "Sponsored REITs".

As of March 31, 2016, the Company owned and operated a portfolio of real estate consisting of 35 operating properties, one property that is in redevelopment, eight managed Sponsored REITs and held five promissory notes secured by mortgages on real estate owned by Sponsored REITs, including two mortgage loans and three revolving lines of credit. From time-to-time, the Company may acquire, develop or redevelop real estate, make additional secured loans or acquire a Sponsored REIT. 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.

Properties

The following table summarizes the Company's number of operating properties and rentable square feet of real estate. In January 2016, the Company classified one property as a redeveopment, which is excluded as of March 31, 2016.

	As of March 31,	
	2016	2015
Commercial real estate:		
Number of properties	35	36
Rentable square feet	9,325,249	9,310,131

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, 2015, as filed with the Securities and Exchange Commission.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") 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 GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016 or for any other period.

Financial Instruments

The Company estimates that the carrying values of cash and cash equivalents, restricted cash, receivables, loans receivable, prepaid expenses, accounts payable and accrued expenses, accrued compensation, tenant security deposits approximate their

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fair values based on their short-term maturity and the bank note and term loans payable approximate their fair values as they bear interest at variable interest rates.

Recent Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This update is effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently in the process of evaluating the impact the adoption of this ASU will have on the condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This update requires an entity to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the financial statements are available to be issued when applicable) and to provide related footnote disclosures in certain circumstances. This update is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter with early adoption permitted. The implementation of this update is not expected to cause any significant changes to the condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments in ASU 2015-02 using: (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption; or (b) by applying the amendments retrospectively. ASU 2015-02 was adopted on January 1, 2016. The implementation of this update did not cause any material changes to the consolidated financial statements for any period.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), ("ASU 2016-02). ASU 2016-02 requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. The guidance also eliminates today's real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. This new standard is effective for annual periods beginning after 15 December 2018, and interim periods thereafter with early adoption is permitted The Company is currently in the process of evaluating the impact the

adoption of this ASU will have on the condensed consolidated financial statements.

Reclassifications

Certain amounts from the 2015 financial statements have been reclassified to conform to the 2016 presentation. The reclassifications were related primarily to conform to ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. This new standard was effective for interim and annual reporting periods beginning after December 15, 2015 and requires retrospective application. Approximately $2.4 million of debt issuance costs were reclassified from other assets to contra term loans on the balance sheet at December 31, 2015. There was no change to net income for any period presented as a result of these reclassifications.

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

Investment in Sponsored REITs:

At March 31, 2016 and December 31, 2015, the Company held a common stock interest in eight and nine Sponsored REITs, respectively. The Company holds a non-controlling preferred stock investment in two of these Sponsored REITs, FSP 303 East Wacker Drive Corp. ("East Wacker") and FSP Grand Boulevard Corp. ("Grand Boulevard"), from which it continues to derive economic benefits and risks.

During the year ended December 31, 2015, a property owned by a Sponsored REIT was sold and, thereafter, liquidating distributions to its preferred shareholders were declared and issued.

During the three months ended March 31, 2016, a property owned by a Sponsored REIT, FSP 385 Interlocken Development Corp. ("385 Interlocken"), was sold and, thereafter, liquidating distributions to its preferred shareholders were declared and issued. The Company had previously made a secured construction loan to 385 Interlocken, which loan in the outstanding principal amount of $37,541,000 was repaid in its entirety from the proceeds of the sale.

Equity in losses of investment in non-consolidated REITs:

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

(in thousands)	Three Months Ended March 31, 2016	2015
Equity in losses of East Wacker	257	285
Equity in losses of Grand Boulevard	29	37
	$ 286	$ 322

Equity in losses of investments in non-consolidated REITs is derived from the Company's share of income or loss in the operations of those entities. The Company exercises influence over, but does not control these entities, and investments are accounted for using the equity method.

Equity in losses 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 losses 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 of $27,000 from non-consolidated REITs during the three months ended March 31, 2016 and 2015.

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 $154,000 and $211,000 for the three months ended March 31, 2016 and 2015, respectively.

From time to time the Company may make secured loans ("Sponsored REIT Loans") to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. The Company reviews Sponsored REIT loans for impairment each reporting period. A loan is impaired when,

based on current information and events, it is probable that the Company will be unable to collect all amounts recorded on the balance sheet. The Company applies normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment. None of the Sponsored REIT loans have been impaired.

The Company anticipates that each Sponsored REIT Loan will be repaid at maturity or earlier from long term financings of the underlying properties, cash flows from the underlying properties or some other capital event. Each Sponsored REIT Loan is secured by a mortgage on the underlying property and has a term of approximately one to three years. Except for two mortgage loans which bear interest at a fixed rate, advances under each Sponsored REIT Loan bear interest at a rate equal to the 30-day LIBOR rate plus an agreed upon amount of basis points and advances also require a 50 basis point draw fee.

The following is a summary of the Sponsored REIT Loans outstanding as of March 31, 2016:

(dollars in thousands) Sponsored REIT	Location	Maturity Date	Maximum Amount of Loan	Amount Drawn at 31-Mar-16	Interest Rate (1)	Draw Fee (2)	Interest Rate at 31-Mar-16
Secured revolving lines of credit							
FSP Satellite Place Corp.	Duluth, GA	31-Mar-17	$ 5,500	$ 3,975	L+ 4.4 %	0.5 %	4.84 %
FSP 1441 Main Street Corp. (3)	Columbia, SC	31-Mar-17	10,800	9,000	L+ 4.4 %	0.5 %	4.84 %
FSP Energy Tower I Corp.	Houston, TX	30-Jun-17	20,000	12,600	L+ 5.0 %	0.5 %	5.44 %
Mortgage loan secured by property							
FSP Monument Circle LLC (4)	Indianapolis, IN	7-Dec-18	21,000	21,000	4.90 %	n/a	4.90 %
FSP Energy Tower I Corp. (5)	Houston, TX	30-Jun-17	33,000	33,000	6.41 %	n/a	6.41 %
			$ 90,300	$ 79,575			

(1) The interest rate is 30-day LIBOR rate plus the additional rate indicated, otherwise a fixed rate.
(2) The draw fee is a percentage of each new advance, and is paid at the time of each new draw.
(3) This revolving line of credit was extended on March 25, 2016.
(4) This mortgage loan includes an origination fee of $164,000 and an exit fee of $38,000 when repaid by the borrower.

(5) This mortgage loan includes an annual extension fee of $108,900 paid by the borrower.

The Company recognized interest income and fees from the Sponsored REIT Loans of approximately $1,279,000 and $1,262,000 for the three months ended March 31, 2016 and 2015, respectively.

Non-consolidated REITs:

The balance sheet data below for 2016 and 2015 includes the 8 and 9 Sponsored REITs the Company held an interest in as of March 31, 2016 and December 31, 2015, respectively. The operating data below for 2016 and 2015 include the operations of the 9 and 10 Sponsored REITs in which the Company held an interest in during the three months ended March 31, 2016 and 2015, respectively.

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Summarized financial information for these Sponsored REITs is as follows:

(in thousands)	March 31, 2016	December 31, 2015
Balance Sheet Data (unaudited):		
Real estate, net	$ 359,005	$ 418,959
Other assets	87,374	101,734
Total liabilities	(159,832)	(203,628)
Shareholders' equity	$ 286,547	$ 317,065

(in thousands)	For the Three Months Ended March 31, 2016	2015
Operating Data (unaudited):		
Rental revenues	$ 13,415	$ 13,900
Other revenues	10	2
Operating and maintenance expenses	(7,576)	(8,235)
Depreciation and amortization	(4,510)	(4,975)
Interest expense	(2,197)	(2,457)
Gain on sale, less applicable income tax	19,748	—
Net income (loss)	$ 18,890	$ (1,765)

3. Bank Note Payable and Term Note Payable

BMO Term Loan

On October 29, 2014, the Company entered into an Amended and Restated Credit Agreement (the "BMO Credit Agreement") with the lending institutions referenced in the BMO Credit Agreement and Bank of Montreal, as administrative agent, that amended and restated the Credit Agreement dated as of August 26, 2013 (the "Original BMO Credit Agreement") between the Company and the lending institutions referenced in the Original BMO Credit Agreement and Bank of Montreal, as administrative agent, and provides for a single, unsecured term loan borrowing

in the amount of $220,000,000 (the "BMO Term Loan"). On August 26, 2013, the Company drew down the entire $220,000,000 under the BMO Term Loan, which remains fully advanced and outstanding under the BMO Credit Agreement. The BMO Term Loan matures on August 26, 2020. The BMO Credit Agreement also includes an accordion feature that allows up to $50,000,000 of additional loans, subject to receipt of lender commitments and satisfaction of certain customary conditions.

The BMO Term Loan bears interest at either (i) a number of basis points over LIBOR depending on the Company's credit rating (165 basis points over LIBOR at March 31, 2016) or (ii) a number of basis points over the base rate depending on the Company's credit rating (65 basis points over the base rate at March 31, 2016).

Although the interest rate on the BMO Term Loan is variable, the Company is permitted to hedge the base LIBOR interest rate by entering into an interest rate swap agreement. On August 26, 2013, the Company entered into an ISDA Master Agreement with Bank of Montreal that fixed the base LIBOR interest rate on the BMO Term Loan at 2.32% per annum for seven years, until the August 26, 2020 maturity date. Accordingly, based upon the Company's credit rating, as of March 31, 2016, the effective interest rate on the BMO Term Loan was 3.97% per annum.

The BMO Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type. The BMO Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, minimum unsecured interest coverage and a maximum ratio of certain investments to total assets. The Company was in compliance with the BMO Term Loan financial covenants as of March 31, 2016.

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The Company may use the proceeds of the loans under the BMO Credit Agreement to finance the acquisition of real properties and for other permitted investments; to finance investments associated with Sponsored REITs, to refinance or retire indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the BMO Credit Agreement.

BAML Credit Facility

On October 29, 2014, the Company entered into a Second Amended and Restated Credit Agreement (the "BAML Credit Agreement") with the lending institutions referenced in the BAML Credit Agreement and those lenders from time to time party thereto and Bank of America, N.A., as administrative agent, L/C Issuer and Swing Line Lender (the "BAML Credit Facility") that continued an existing unsecured credit facility comprised of both a revolving line of credit (the "BAML Revolver) and a term loan (the "BAML Term Loan").

BAML Revolver Highlights

- The BAML Revolver is for borrowings, at the Company's election, of up to $500,000,000. Borrowings made pursuant to the BAML Revolver may be revolving loans, swing line loans or letters of credit, the combined sum of which may not exceed $500,000,000 outstanding at any time.
- Borrowings made pursuant to the BAML Revolver may be borrowed, repaid and reborrowed from time to time until the initial maturity date of October 29, 2018. The Company has the right to extend the initial maturity date of the BAML Revolver by an additional 12 months, or until October 29, 2019, upon payment of a fee and satisfaction of certain customary conditions.
- The BAML Revolver includes an accordion feature that allows for up to $250,000,000 of additional borrowing capacity subject to receipt of lender commitments and satisfaction of certain customary conditions.

As of March 31, 2016, there were borrowings of $265,000,000 outstanding under the BAML Revolver. The BAML Revolver bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.25% over LIBOR at March 31, 2016) or (ii) a margin over the base rate depending on the Company's credit rating (0.25% over the base rate at March 31, 2016). The BAML Credit Facility also obligates the Company to pay an annual facility fee in an amount that is also based on the Company's credit rating (0.25% at March 31, 2016). The facility fee is assessed against the total amount of the BAML Revolver, or $500,000,000.

Based upon the Company's credit rating, as of March 31, 2016, the weighted average interest rate on the BAML Revolver was 1.69% per annum and there were borrowings of $265,000,000 outstanding. As of December 31, 2015, the weighted average interest rate on the BAML Revolver was 1.54% per annum and there were borrowings of $290,000,000 outstanding. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the three months ended March 31, 2016 was approximately 1.67% per annum. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the year ended December 31, 2015 was approximately

1.44% per annum.

BAML Term Loan Highlights

- The BAML Term Loan is for $400,000,000.
- The BAML Term Loan matures on September 27, 2017.
- On September 27, 2012, the Company drew down the entire $400,000,000 and such amount remains fully advanced and outstanding under the BAML Credit Agreement.

The BAML Term Loan bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.45% over LIBOR at March 31, 2016) or (ii) a margin over the base rate depending on the Company's credit rating (0.45% over the base rate at March 31, 2016). The actual margin over LIBOR rate or base rate is determined based on the Company's credit rating.

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Although the interest rate on the BAML Credit Facility is variable, the Company fixed the base LIBOR interest rate on the BAML Term Loan by entering into an interest rate swap agreement. On September 27, 2012, the Company entered into an ISDA Master Agreement with Bank of America, N.A. that fixed the base LIBOR interest rate on the BAML Term Loan at 0.75% per annum for five years, until the September 27, 2017 maturity date. Accordingly, based upon the Company's credit rating, as of March 31, 2016, the effective interest rate on the BAML Term Loan was 2.20% per annum.

BAML Credit Facility General Information

The BAML Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type. The BAML Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, minimum unsecured interest coverage and a maximum ratio of certain investments to total assets. The Company was in compliance with the BAML Credit Facility financial covenants as of March 31, 2016.

The Company may use the proceeds of the loans under the BAML Credit Agreement to finance the acquisition of real properties and for other permitted investments; to finance investments associated with Sponsored REITs, to refinance or retire indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the BAML Credit Agreement.

4. Financial Instruments: Derivatives and Hedging

On August 26, 2013, the Company fixed the interest rate for seven years on the BMO Credit Agreement with an interest rate swap agreement (the "BMO Interest Rate Swap") and on September 27, 2012, the Company fixed the interest rate for five years on the BAML Term Loan with an interest rate swap agreement (the "BAML Interest Rate Swap"). The variable rates that were fixed under the BMO Interest Rate Swap and the BAML Interest Rate Swap are described in Note 3.

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

The following table summarizes the notional and fair value of our derivative financial instruments at March 31, 2016. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks.

(in thousands)	Notional Value	Strike Rate		Effective Date	Expiration Date	Fair Value
BMO Interest Rate Swap	$ 220,000	2.32	%	Aug-13	Aug-20	$ (12,498)
BAML Interest Rate Swap	$ 400,000	0.75	%	Sep-12	Sep-17	$ (728)

On March 31, 2016, the BMO Interest Rate Swap was reported as a liability at its fair value of approximately $12.5 million and the BAML Interest Rate Swap was reported as a liability at its fair value of approximately $0.7 million. These are included in other liabilities: derivative liability on the condensed consolidated balance sheet at March 31, 2016. Offsetting adjustments are reported as unrealized gains or losses on derivative financial instruments in accumulated other comprehensive income of $6.1 million. During the three months ended March 31, 2016, $1.4 million was reclassified out of other comprehensive income and into interest expense.

Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified into earnings as an increase or reduction to interest expense in the same periods in which the hedged interest payments affect earnings.

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The Company estimates that approximately $3.3 million of the current balance held in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The Company is hedging the exposure to variability in anticipated future interest payments on existing debt.

The fair value of the Company's derivative instruments are determined using the net discounted cash flows of the expected cash flows of the derivative based on the market based interest rate curve and are adjusted to reflect credit or nonperformance risk. The risk is estimated by the Company using credit spreads and risk premiums that are observable in the market. These financial instruments were classified within Level 2 of the fair value hierarchy and were classified as an asset or liability on the condensed consolidated balance sheets.

5. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of Company shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at March 31, 2016 and 2015, respectively.

6. Stockholders' Equity

As of March 31, 2016, the Company had 100,187,405 shares of common stock outstanding. The Company declared and paid dividends as follows (in thousands, except per share amounts):

Quarter Paid	Dividends Per Share	Total Dividends
First quarter of 2016	$ 0.19	$ 19,036
First quarter of 2015	$ 0.19	$ 19,036

7. Income Taxes

General

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

One such restriction is that the Company generally cannot own more than 10% of the voting power or value of the securities of any one issuer unless the issuer is itself a REIT or a taxable REIT subsidiary (“TRS”). In the case of TRSs, the Company’s ownership of securities in all TRSs generally cannot exceed 25% of the value of all of the Company’s assets and, when considered together with other non-real estate assets, cannot exceed 25% of the value of all of the Company’s assets. FSP Investments and FSP Protective TRS Corp. are the Company’s taxable REIT subsidiaries operating as taxable corporations under the Code.

Income taxes are recorded based on the future tax effects of the difference between the tax and financial reporting bases of the Company’s assets and liabilities. In estimating future tax consequences, potential future events are considered except for potential changes in income tax law or in rates.

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The Company adopted an accounting pronouncement related to uncertainty in income taxes effective January 1, 2007, which did not result in recording a liability, nor was any accrued interest and penalties recognized with the adoption. Accrued interest and penalties will be recorded as income tax expense, if the Company records a liability in the future. The Company's effective tax rate was not affected by the adoption. The Company and one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The statute of limitations for the Company's income tax returns is generally three years and as such, the Company's returns that remain subject to examination would be primarily from 2012 and thereafter.

The Company is subject to a business tax known as the Revised Texas Franchise Tax. Some of the Company's leases allow reimbursement by tenants for these amounts because the Revised Texas Franchise Tax replaces a portion of the property tax for school districts. Because the tax base on the Revised Texas Franchise Tax is derived from an income based measure, it is considered an income tax. The Company recorded a provision for the Revised Texas Franchise Tax of $87,000 and $159,000 for the three months ended March 31, 2016 and 2015, respectively.

Net operating losses

Section 382 of the Code restricts a corporation's ability to use net operating losses ("NOLs") to offset future taxable income following certain "ownership changes." Such ownership changes occurred with past mergers and accordingly a portion of the NOLs incurred by the Sponsored REITs available for use by the Company in any particular future taxable year will be limited. To the extent that the Company does not utilize the full amount of the annual NOLs limit, the unused amount may be carried forward to offset taxable income in future years. NOLs expire 20 years after the year in which they arise, and the last of the Company's NOLs will expire in 2027. A valuation allowance is provided for the full amount of the NOLs as the realization of any tax benefits from such NOLs is not assured. The gross amount of NOLs available to the Company was $13,041,000 as of each of March 31, 2016 and December 31, 2015.

Income Tax Expense

The income tax expense reflected in the condensed consolidated statements of income relates primarily to a franchise tax on our Texas properties. FSP Protective TRS Corp. provides taxable services to tenants at some of the Company's properties and the tax expenses associated with these activities are reported as Other Taxes in the table below:

	For the Three Months Ended March 31,	
(Dollars in thousands)	2016	2015

Revised Texas franchise tax	$ 87	$ 159
Other Taxes	11	2
Taxes on income	$ 98	$ 161

Taxes on income are a current tax expense. No deferred income taxes were provided as there were no material temporary differences between the financial reporting basis and the tax basis of the TRSs.

8. Dispositions of properties

The Company sold an office property located in Plano, Texas on February 23, 2015 at a $1.5 million gain, an office property located in Eden Prairie, Minnesota on March 31, 2015 at a $9.0 million gain, an office property located in Charlotte, North Carolina on May 13, 2015 at a $0.9 million gain and an office property located in San Jose, California on December 9, 2015 at a $12.3 million gain. During the three months ended March 31, 2016, the Company reached an agreement to sell an office property located in Maryland Heights, Missouri. The property was classified as an asset held for sale at March 31, 2016 and was sold on April 5, 2016 at approximately a $4.1 million gain. The disposal of the properties does not represent a strategic shift that has a major effect on the Company's operations and financial results. Accordingly, the properties remain classified within continuing operations for all periods presented.

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9. Subsequent Events

On April 8, 2016, the Board of Directors of the Company declared a cash distribution of $0.19 per share of common stock payable on May 12, 2016 to stockholders of record on April 22, 2016.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2015. Historical results and percentage relationships set forth in the condensed consolidated financial statements, including trends which might appear, should not be taken as necessarily indicative of future operations. The following discussion and other parts of this Quarterly Report on Form 10-Q may also contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, including without limitation, economic conditions in the United States, disruptions in the debt markets, economic conditions in the markets in which we own properties, risks of a lessening of demand for the types of real estate owned by us, uncertainties relating to fiscal policy, changes in government regulations and regulatory uncertainty, geopolitical events, and expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs, additional staffing, insurance increases and real estate tax valuation reassessments. See Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and Part II, Item 1A. "Risk Factors" below. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We may not update any of the forward-looking statements after the date this Quarterly Report on Form 10-Q is filed to conform them to actual results or to changes in our expectations that occur after such date, other than as required by law.

Overview

FSP Corp., or we or the Company, operates in the real estate operations segment. The real estate operations segment involves real estate rental operations, leasing, secured financing of real estate and services provided for asset management, property management, property acquisitions, dispositions and development. Our current strategy is to invest in select urban infill and central business district properties, with primary emphasis on our top five markets of Atlanta, Dallas, Denver, Houston and Minneapolis. We believe that our top five markets have macro-economic drivers that have the potential to increase occupancies and rents. We will also monitor San Diego, Silicon Valley, Greater Boston and Greater Washington, DC, as well as other markets, for opportunistic investments. FSP Corp. seeks value-oriented investments with an eye towards long-term growth and appreciation, as well as current income.

Approximately 6.6 million square feet, or approximately 70% of our total owned portfolio, is located in our top five markets. We are continuing our initiative to dispose of our smaller, suburban office assets and to replace them with larger urban infill and central business district office assets located primarily in our top five markets. As we execute this strategy, short term operating results could be adversely impacted. However, once complete, we believe that the transformed portfolio has the potential to provide higher profit and asset value growth over a longer period of time.

The main factor that affects our real estate operations is the broad economic market conditions in the United States. These market conditions affect the occupancy levels and the rent levels on both a national and local level. We have no influence on broader economic/market conditions. We look to acquire and/or develop quality properties in good locations in order to lessen the impact of downturns in the market and to take advantage of upturns when they occur.

Critical Accounting Policies

We have certain critical accounting policies that are subject to judgments and estimates by our management and uncertainties of outcome that affect the application of these policies. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The accounting policies that we believe are most critical to the understanding of our financial position and results of operations, and that require significant management estimates and judgments, are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2015.

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Critical accounting policies are those that have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and assessments are consistently applied and produce financial information that fairly presents our results of operations. No changes to our critical accounting policies have occurred since the filing of our Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This update is effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently in the process of evaluating the impact the adoption of this ASU will have on the condensed consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This update requires an entity to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the financial statements are available to be issued when applicable) and to provide related footnote disclosures in certain circumstances. This update is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter with early adoption permitted. The implementation of this update is not expected to cause any significant changes to the condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments in ASU 2015-02 using: (a) a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption; or (b) by applying the amendments retrospectively. ASU 2015-02 was adopted on January 1, 2016. The implementation of this update did not cause any material changes to the consolidated financial statements for any period.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), ("ASU 2016-02). ASU 2016-02 requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. The guidance also eliminates today's real estate-specific provisions for all entities. For

lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. This new standard is effective for annual periods beginning after 15 December 2018, and interim periods thereafter with early adoption is permitted The Company is currently in the process of evaluating the impact the adoption of this ASU will have on the condensed consolidated financial statements.

Trends and Uncertainties

Economic Conditions

The economy in the United States is continuing to experience a period of slow economic growth, with continued declining unemployment rates, which directly affects the demand for office space, our primary income producing asset. The broad economic market conditions in the United States are affected by numerous factors, including but not limited to, inflation and employment levels, energy prices, the pace of economic growth and/or recessionary concerns, uncertainty about government fiscal and tax policy, changes in currency exchange rates, geopolitical events, the regulatory environment, the availability of credit and interest rates. In addition, the Federal Reserve Bank has indicated that it anticipates raising interest rates further in 2016. Any increase in interest rates could result in increased borrowing costs to us. However, we could also benefit from

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any further improved economic fundamentals and increasing levels of employment. We believe that the economy is in a cyclically-slower but prolonged broad-based upswing. However, future economic factors may negatively affect real estate values, occupancy levels and property income.

Real Estate Operations

Leasing

Our real estate portfolio was approximately 90.2% leased as of March 31, 2016, a decrease from 91.6% as of December 31, 2015. The 1.4% decrease in leased space was a result of lease expirations and terminations during 2016 that were not leased at March 31, 2016. As of March 31, 2016, we had 917,000 square feet of vacancy in our portfolio compared to 800,000 square feet of vacancy at December 31, 2015. During the three months ended March 31, 2016, we leased approximately 178,000 square feet of office space, of which approximately 133,000 square feet were with existing tenants, at a weighted average term of 6.6 years. On average, tenant improvements for such leases were $13.47 per square foot, lease commissions were $10.75 per square foot and rent concessions were approximately three months of free rent. Average GAAP base rents under such leases were $28.69 per square foot, or 3.3% higher than average rents in the respective properties as applicable compared to the year ended December 31, 2015.

In January 2016, our property at 801 Marquette Avenue in Minneapolis, Minnesota, with approximately 170,000 square feet of space, became vacant and we are redeveloping the property. After extensive costing analysis with our potential development partners and outside professionals, we have decided to redevelop the existing building ourselves, rather than raze it and build a new, mixed use tower with outside development partners.

As of March 31, 2016, leases for approximately 6.3% and 10.9% of the square footage in our portfolio are scheduled to expire during 2016 and 2017, respectively. As the second quarter of 2016 begins, we believe that our property portfolio is well stabilized, with a balanced lease expiration schedule, and that existing vacancy is being actively marketed to numerous potential tenants. We believe that most of our largest property markets are now experiencing generally steady or improving rental conditions. We anticipate continued positive leasing activity within the portfolio during 2016.

While we cannot generally predict when an existing vacancy in our real estate portfolio 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 then-current market rates for locations in which the buildings are located, which could be above or below the expiring rates. Also, even as the economy recovers, we believe the potential for any of our tenants to default on its lease or to seek the protection of bankruptcy still exists. 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.

Real Estate Acquisition and Investment Activity

During 2016:

- on January 19, we received approximately $37.5 million from FSP 385 Interlocken Development Corp. as repayment in full of a Sponsored REIT Loan;
- on March 31, we received approximately $1.5 million from FSP Satellite Place Corp., as partial prepayment of a Sponsored REIT Loan; and
- additional potential real estate investment opportunities are actively being explored and we would anticipate further real estate investments in the future.

During 2015:

- we funded advances on Sponsored REIT Loans for revolving lines of credit in the aggregate amount of approximately $4.0 million;
- on April 8, we acquired an office property with approximately 442,130 rentable square feet of space for $78.0 million located in the Central Perimeter Submarket of Atlanta, Georgia: and

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- on December 7, we funded a Sponsored REIT Loan consisting of a mortgage loan secured by a property of approximately $21.0 million.

Dispositions of Properties

On April 5, 2016, we sold an office property located in Maryland Heights, Missouri at approximately a $4.1 million gain. The property is classified as an asset held for sale as of March 31, 2016. During 2015, we sold an office property located in Plano, Texas on February 23, 2015 at a $1.5 million gain, an office property located in Eden Prairie, Minnesota on March 31, 2015 at a $9.0 million gain, an office property located in Charlotte, North Carolina on May 13, 2015 at a $0.9 million gain and an office property located in San Jose, California on December 9, 2015 at a $12.3 million gain.

We will continue to evaluate our portfolio, and in the future may decide to dispose of additional properties from time-to-time in the ordinary course of business. We believe that the current property sales environment continues to improve in many markets relative to both liquidity and pricing. We believe that both improving office property fundamentals as well as attractive financing availability will likely be required to continue improvement in the marketplace for potential property dispositions. As an important part of our total return strategy, we intend to be active in property dispositions when we believe that market conditions warrant such activity and, as a consequence, we continuously review and evaluate our portfolio of properties for potentially advantageous dispositions.

Results of Operations

The following table shows results for the three months ended March 31, 2016 and 2015:

	Three months ended March 31,		
(in thousands)	2016	2015	Change
Revenues:			
Rental	$ 58,360	$ 59,013	$ (653)
Related party revenue:			
Management fees and interest income from loans	1,433	1,473	(40)
Other	20	21	(1)
Total revenues	59,813	60,507	(694)
Expenses:			
Real estate operating expenses	15,292	15,356	(64)
Real estate taxes and insurance	9,150	10,048	(898)

Depreciation and amortization	22,445	22,672	(227)
Selling, general and administrative	3,530	3,691	(161)
Interest	6,433	6,187	246
Total expenses	56,850	57,954	(1,104)
Income before interest income, equity in losses, gain on sale of properties and taxes on income	2,963	2,553	410
Interest income	—	1	(1)
Equity in losses of non-consolidated REITs	(286)	(322)	36
Gain on sale of properties, less applicable income tax	—	10,462	(10,462)
Income before taxes on income	2,677	12,694	(10,017)
Taxes on income	98	161	(63)
Net income	$ 2,579	$ 12,533	$ (9,954)

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Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015:

Revenues

Total revenues decreased by $0.7 million to $59.8 million for the quarter ended March 31, 2016, as compared to the quarter ended March 31, 2015. The increase was primarily a result of:

· A decrease in rental revenue of approximately $0.7 million arising primarily from the loss of revenue from the disposition of four properties and lower recoverable income in the first quarter of 2016 compared to the first quarter of 2015. We sold a property on each of February 23, 2015, March 31, 2015, May 13, 2015 and December 9, 2015. These decreases were partially offset by rental revenue for a property we acquired on April 8, 2015. In addition, our leased space decreased slightly to 90.2% at March 31, 2016 compared to 90.4% at March 31, 2015.

Expenses

Total expenses decreased by $1.1 million to $56.8 million for the quarter ended March 31, 2016, as compared to the quarter ended March 31, 2015. The increase was primarily a result of:

· A decrease in real estate operating expenses and real estate taxes and insurance of approximately $0.9 million, which was attributable to the disposition of four properties in the last twelve months and was partially offset by the acquisition of a property we acquired on April 8, 2015.
· An decrease in depreciation and amortization of $0.2 million, which was attributable to the disposition of four properties in the last twelve months and was partially offset by the acquisition of a property we acquired on April 8, 2015.
· A decrease to selling, general and administrative expenses of approximately $0.2 million as a result of lower professional fees during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

These decreases were partially offset by:

· An increase to interest expense of approximately $0.2 million to $6.4 million for the three months ended March 31, 2016 compared to the same period in 2015. The increase was primarily attributable to higher interest rates during the three months ended March 31, 2016 compared to the same period in 2015.

Equity in losses of non-consolidated REITs

Equity in losses from non-consolidated REITs decreased approximately $36,000 to a loss of $0.3 million during the three months ended March 31, 2016 compared to the same period in 2015. The decrease was primarily because equity in loss from our preferred stock investment in a Sponsored REIT, FSP 303 East Wacker Drive Corp., which we refer to as East Wacker, decreased $28,000 during the three months ended March 31, 2016 compared to the same period in 2015.

Taxes on income

Included in income taxes is the Revised Texas Franchise Tax, which is a tax on revenues from Texas properties that decreased $72,000 and federal and other income taxes that increased $9,000 for the three months ended March 31, 2016, compared to the three months ended March 31, 2015.

Net Income

Net Income for the three months ended March 31, 2016 was $2.6 million compared to $12.5 million for the three months ended March 31, 2015, for the reasons described above.

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Non-GAAP Financial Measures

Funds From Operations

The Company evaluates performance based on Funds From Operations, which we refer to as FFO, as management believes that FFO represents the most accurate measure of activity and is the basis for distributions paid to equity holders. The Company defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property and acquisition costs of newly acquired properties that are not capitalized, plus depreciation and amortization, including amortization of acquired above and below market lease intangibles and impairment charges on properties or investments in non-consolidated REITs, and after adjustments to exclude equity in income or losses from, and, to include the proportionate share of FFO from, non-consolidated REITs.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP), nor as an indicator of the Company's financial performance, nor as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs.

Other real estate companies and the National Association of Real Estate Investment Trusts, or NAREIT may define this term in a different manner. We have included the NAREIT FFO definition in our table and note that other REITs may not define FFO in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than we do.

We believe that in order to facilitate a clear understanding of the results of the Company, FFO should be examined in connection with net income and cash flows from operating, investing and financing activities in the consolidated financial statements.

The calculations of FFO are shown in the following table:

	For the Three Months Ended March 31,	
(in thousands):	2016	2015
Net income (loss)	$ 2,579	$ 12,533
(Gain) loss on sale, less applicable income tax	—	(10,462)

Equity in (earnings) losses of non-consolidated REITs	286	322
FFO from non-consolidated REITs	645	601
Depreciation and amortization	22,527	22,678
NAREIT FFO	26,037	25,672
Acquisition costs of new properties	—	—
Funds From Operations	$ 26,037	$ 25,672

Net Operating Income (NOI)

The Company provides property performance based on Net Operating Income, which we refer to as NOI. Management believes that investors are interested in this information. NOI is a non-GAAP financial measure that the Company defines as net income (the most directly comparable GAAP financial measure) plus selling, general and administrative expenses, depreciation and amortization, including amortization of acquired above and below market lease intangibles and impairment charges, interest expense, less equity in earnings of nonconsolidated REITs, interest income, management fee income, gains or losses on the sale of assets and excludes non-property specific income and expenses. The information presented includes footnotes and the data is shown by region with properties owned in both periods, which we call Same Store. The Comparative Same Store results include properties held for the periods presented and exclude properties that are non-operating, being developed or redeveloped, dispositions and significant nonrecurring income such as bankruptcy settlements and lease termination fees. NOI, as defined by the Company, may not be comparable to NOI reported

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by other REITs that define NOI differently. NOI should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of the Company's liquidity or its ability to make distributions. The calculations of NOI are shown in the following table:

Net Operating Income (NOI)*

(in thousands)	Rentable Square Feet or RSF	Three Months Ended 31-Mar-16	Three Months Ended 31-Mar-15	Inc (Dec)	% Change	
Region						
East	1,333	$ 4,671	$ 4,736	$ (65)	(1.4)	%
MidWest	1,361	3,411	3,370	41	1.2	%
South	4,026	16,020	15,781	239	1.5	%
West	2,163	8,439	7,859	580	7.4	%
Same Store	8,883	32,541	31,746	795	2.5	%
Acquisitions	442	1,180	0	1,180	3.7	%
Property NOI from the continuing portfolio	9,325	33,721	31,746	1,975	6.2	%
Dispositions, Non-Operating, Development or Redevelopment		(254)	1,278	(1,532)	(4.9)	%
Property NOI		$ 33,467	$ 33,024	$ 443	1.3	%
Same Store		$ 32,541	$ 31,746	$ 795	2.5	%
Less Nonrecurring Items in NOI (a)		413	75	338	(1.1)	%
Comparative Same Store		$ 32,128	$ 31,671	$ 457	1.4	%

Reconciliation to Net income	Three months ended 31-Mar-16	Three Months Ended 31-Mar-15
Net Income	$ 2,579	$ 12,533
Add (deduct):		
Gain on sale of properties, less applicable income taxes	—	(10,462)
Management fee income	(660)	(643)
Depreciation and amortization	22,445	22,672
Amortization of above/below market leases	81	6
	3,530	3,691

Selling, general and administrative		
Interest expense	6,433	6,187
Interest income	(1,279)	(1,262)
Equity in losses of non-consolidated REITs	286	322
Non-property specific items, net	52	(20)
Property NOI	$ 33,467	$ 33,024

(a) Nonrecurring Items in NOI include proceeds from bankruptcies, lease termination fees or other significant nonrecurring income or expenses, which may affect comparability.

*Excludes NOI from investments in and interest income from secured loans to non-consolidated REITs.

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The information presented below provides the weighted average GAAP rent per square foot for the three months ending March 31, 2016 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those to which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of March 31, 2016 (a)		Weighted Average Rent per Occup Square Feet (b)
Forest Park	Charlotte	NC	1999	62,212	62,212	100.0	%	$ 14.16
Meadow Point	Chantilly	VA	1999	138,537	138,537	100.0	%	27.83
Innsbrook	Glen Allen	VA	1999	298,456	298,456	100.0	%	19.14
East Baltimore	Baltimore	MD	1989	325,445	276,108	84.8	%	23.27
Loudoun Tech Center	Dulles	VA	1999	136,658	125,766	92.0	%	20.39
Stonecroft	Chantilly	VA	2008	111,469	111,469	100.0	%	38.48
Emperor Boulevard	Durham	NC	2009	259,531	259,531	100.0	%	34.41
East total				1,332,308	1,272,079	95.5	%	25.67
Northwest Point	Elk Grove Village	IL	1999	176,848	176,848	100.0	%	22.80
909 Davis Street	Evanston	IL	2002	195,245	173,358	88.8	%	31.03
River Crossing	Indianapolis	IN	1998	205,059	186,419	90.9	%	20.52
Timberlake	Chesterfield	MO	1999	234,023	223,375	95.5	%	22.91
Timberlake East	Chesterfield	MO	2000	116,197	49,732	42.8	%	23.63
Lakeside Crossing	Maryland Heights	MO	2008	127,778	127,778	100.0	%	24.26
121 South 8th Street	Minneapolis	MN	1974	305,990	171,997	56.2	%	19.25
Midwest total				1,361,140	1,109,507	81.5	%	23.38
Blue Lagoon Drive	Miami	FL	2002	212,619	212,619	100.0	%	22.37
One Overton Place	Atlanta	GA	2002	387,267	328,480	84.8	%	24.65
Park Ten	Houston	TX	1999	157,460	99,357	63.1	%	31.10
Addison Circle	Addison	TX	1999	290,041	271,043	93.5	%	27.06
Collins Crossing	Richardson	TX	1999	300,887	300,887	100.0	%	24.76
Eldridge Green	Houston	TX	1999	248,399	248,399	100.0	%	28.38

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