

FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-Q
October 31, 2006

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 September 30, 2006.

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)

(IRS Employer Identification Number)

401 Edgewater Place, Suite 200
Wakefield, MA 01880-6210

(Address of principal executive offices) (Zip Code)

(781) 557-1300

(Registrant's telephone number, including area code)

N/A

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

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

YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, an
accelerated filer, or a non-accelerated filer. See definition of "accelerated

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

filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

YES

NO

The number of shares of common stock outstanding as of October 31, 2006 was 70,766,305.

Franklin Street Properties Corp.

Form 10-Q

Quarterly Report
September 30, 2006

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets as of September 30, 2006 and December 31, 2005.....

Consolidated Statements of Income for the three and nine months ended September 30, 2006 and 2005.....

Consolidated Statements of Cash Flows for the nine months ended September 30, 2006 and 2005.....

Notes to Consolidated Financial Statements.....

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.....

Item 4. Controls and Procedures.....

Part II. Other Information

Item 1. Legal Proceedings.....

Item 1A. Risk Factors.....

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

Item 3. Defaults Upon Senior Securities.....

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

Item 5. Other Information.....

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

Item 6. Exhibits.....
 Signatures

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Franklin Street Properties Corp.
 Consolidated Balance Sheets
 (Unaudited)

(in thousands, except share and par value amounts) September 30,
2006

Assets:	
Real estate assets:	
Land	\$ 103,879
Buildings and improvements	734,784
Fixtures and equipment	612

	839,275
Less accumulated depreciation	40,921

Real estate assets, net	798,354
Acquired real estate leases, less accumulated amortization of \$19,471 and \$10,402, respectively	45,206
Investment in non-consolidated REITs	5,011
Assets held for sale	--
Cash and cash equivalents	60,968
Restricted cash	471
Tenant rent receivables, less allowance for doubtful accounts of \$350 and \$350, respectively	833
Straight-line rent receivable, less allowance for doubtful accounts of \$163 and \$163, respectively	5,102
Prepaid expenses	1,451
Other assets	3,001
Office computers and furniture, net of accumulated depreciation of \$822 and \$729, respectively	327
Deferred leasing commissions, net of accumulated amortization of \$1,177, and \$731, respectively	6,112

Total assets	\$ 926,836

Liabilities and Stockholders' Equity:

Liabilities:	
Accounts payable and accrued expenses	\$ 16,943
Accrued compensation	1,525
Tenant security deposits	1,541
Acquired unfavorable real estate leases, less accumulated amortization of \$416, and \$134, respectively	2,410

Total liabilities	22,419

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

Commitments and contingencies

Stockholders' Equity:

Preferred stock, \$.0001 par value, 20,000,000 shares authorized, none issued or outstanding	--
Common stock, \$.0001 par value, 180,000,000 shares authorized, 70,766,305 and 59,794,608 shares issued and outstanding, respectively	7
Additional paid-in capital	907,794
Treasury stock, 731,898 and 731,898 shares at cost, respectively	(14,008)
Earnings (distributions) in excess of accumulated earnings/distributions	10,624

Total stockholders' equity 904,417

Total liabilities and stockholders' equity \$ 926,836

See accompanying notes to consolidated financial

3

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

(in thousands, except per share amounts)	For the Three Months Ended September 30,		Nine Sep
	2006	2005	2006
Revenue:			
Rental	\$ 27,703	\$18,582	\$72,547
Related party revenue:			
Syndication fees	861	2,856	6,287
Transaction fees	1,140	2,850	6,548
Management fees and interest income from loans	210	149	1,079
Other	4	4	26
Total revenue	29,918	24,441	86,487
Expenses:			
Real estate operating expenses	6,523	4,335	16,306
Real estate taxes and insurance	4,030	2,512	9,974
Depreciation and amortization	6,782	3,711	17,515
Selling, general and administrative	2,027	2,034	5,785
Commissions	458	1,457	3,290
Interest	119	1,082	1,259
Total expenses	19,939	15,131	54,129

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

Income before interest income, equity in earnings of non-consolidated REITs and taxes on income	9,979	9,310	32,358
Interest income	735	451	2,080
Equity in earnings of non-consolidated REITs	481	328	717

Income before taxes on income	11,195	10,089	35,155
Income tax expense (benefit)	(131)	184	273

Income from continuing operations	11,326	9,905	34,882
Income from discontinued operations	143	2,594	2,095
Gain on sale of assets, net	6,361	14,316	34,469

Net income	\$ 17,830	\$26,815	\$71,446
=====			
Weighted average number of shares outstanding, basic and diluted	70,766	60,526	65,944
=====			
Earnings per share, basic and diluted, attributable to:			
Continuing operations	\$ 0.16	\$ 0.16	\$ 0.53
Discontinued operations	0.00	0.04	0.03
Gains on sales of assets, net	0.09	0.24	0.52

Net income per share, basic and diluted	\$ 0.25	\$ 0.44	\$ 1.08
=====			

See accompanying notes to consolidated financial statements.

4

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

	For the Nine Months Ended September 30, 2006	
(in thousands)	2006	
=====		
Cash flows from operating activities:		
Net income	\$ 71,446	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Gains on assets sold, net	(34,469)	
Depreciation and amortization expense	18,198	
Amortization of above market lease	5,208	
Equity in earnings from non-consolidated REITs	(912)	
Distributions from non-consolidated REITs	724	
Shares issued as compensation	--	
Changes in operating assets and liabilities:		

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

Restricted cash	(10)	
Tenant rent receivables, net	614	
Straight-line rents, net	(529)	
Prepaid expenses and other assets, net	570	
Accounts payable and accrued expenses	1,358	
Accrued compensation	(366)	
Tenant security deposits	248	
Payment of deferred leasing commissions	(4,422)	
<hr/>		
Net cash provided by operating activities	57,658	
<hr/>		
Cash flows from investing activities:		
Cash acquired through issuance of common stock in merger transaction	13,849	
Purchase of real estate assets, office computers and furniture, capitalized merger costs	(112,253)	
Merger costs paid	(838)	
Purchase of acquired favorable and unfavorable leases	(5,106)	
Investment in non-consolidated REITs	(4,127)	
Investment in assets held for syndication, net	--	
Changes in deposits on real estate assets	(2,540)	
Proceeds received on sale of real estate assets	103,739	
<hr/>		
Net cash (used for) provided by investing activities	(7,276)	
<hr/>		
Cash flows from financing activities:		
Distributions to stockholders	(59,010)	
Purchase of treasury shares	--	
Offering costs	(119)	
Deferred financing costs	--	
Repayments under the bank note payable, net	--	
<hr/>		
Net cash used for financing activities	(59,129)	
<hr/>		
Net decrease in cash and cash equivalents	(8,747)	
Cash and cash equivalents, beginning of period	69,715	
<hr/>		
Cash and cash equivalents, end of period	\$ 60,968	\$

See accompanying notes to consolidated financial statements

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

For the
 Nine Months Ended
 September 30, 2006

(in thousands)

2006

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

Supplemental disclosure of cash flow information:

Cash paid for:	
Interest	\$ 1,219
Income taxes	515
Non-cash investing and financing activities:	
Assets acquired through the issuance of common stock in merger, net	230,517
Investment in non-consolidated REITs converted to real estate assets and acquired real estate leases in conjunction with merger	4,018

See accompanying notes to consolidated financial statements

6

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

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

Organization

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

On April 30, 2005, the Company acquired four real estate investment trusts (the "2005 Target REITs") by the merger of the four 2005 Target REITs with and into four of the Company's wholly-owned subsidiaries. The merger was effective April 30, 2005 and, as a result, the Company issued 10,894,994 shares in a tax-free exchange for all outstanding preferred shares of the 2005 Target REITs. The mergers were accounted for as a purchase and the acquired assets and liabilities were recorded at their fair value.

On April 30, 2006, the Company acquired five real estate investment trusts (the "2006 Target REITs"), by the merger of the five 2006 Target REITs with and into five of the Company's wholly-owned subsidiaries. The merger was effective April 30, 2006 and, as a result, the Company issued 10,971,697 shares in a tax-free exchange for all outstanding preferred shares of the 2006 Target REITs. The mergers were accounted for as a purchase and the acquired assets and liabilities were recorded at their fair value.

The Company operates in two business segments: real estate operations and investment banking/investment services. FSP Investments provides real estate investment and broker/dealer services. FSP Investments' services include: (i) the organization of REIT entities (the "Sponsored REITs"), which are syndicated through private placements; (ii) sourcing of the acquisition of real estate on behalf of the Sponsored REITs; and (iii) the sale of preferred stock in Sponsored REITs. FSP Property Management provides asset management and property management services for the Sponsored REITs.

Properties

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

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

	As of	
	September 30,	
	2006	2005
	-----	-----
Residential real estate:		
Number of properties	--	1
Number of apartments	--	228
Commercial real estate:		
Number of properties	31	27
Square feet	5,301,847	4,018,544

Basis of Presentation

The unaudited consolidated financial statements of the Company include all the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the Company's financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2005, 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 accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Operating results for the three months and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or for any other period.

7

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

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

Reclassifications

Certain balances from the 2005 balance sheet and interim financial statements have been reclassified to conform to the 2006 presentation. The reclassifications primarily were related to the disposition of six properties sold in 2005 and four properties sold in 2006, which are reported as discontinued operations for all periods presented. These reclassifications changed rental revenues, operating and maintenance expenses, depreciation and amortization, other income and the related assets, which are segregated on the financial statements. There was no change to total assets or net income for any period presented as a result of these reclassifications.

Recent Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, which clarifies the accounting for uncertainty in income

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

taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition. The guidance is effective for periods beginning after December 15, 2006. The Company is evaluating the impact of this interpretation, if any, on the Company's results of operations, financial position, or liquidity.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") regarding EITF No. 05-6, "Determining the Amortization Period for Leasehold Improvements." The guidance requires that leasehold improvements acquired in a business combination, or purchased subsequent to the inception of a lease, be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. The guidance is effective for periods beginning after June 29, 2005. The Company has adopted EITF 05-6, which did not materially impact the Company's results of operations, financial position, or liquidity.

2. Investment Banking/Investment Services Activity

During the nine months ended September 30, 2006, the Company sold on a best efforts basis, through private placements, preferred stock in the following Sponsored REIT:

Sponsored REIT	Property Location	Date Syndication Completed	Gross Proceeds (1)
			(in thousands)
FSP Phoenix Tower Corp.	Houston, TX	September 22, 2006	\$100,200

1. The syndication of FSP Phoenix Tower Corp. commenced in February 2006.

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

Investment in Sponsored REITs:

At September 30, 2006, the Company held an interest in nine Sponsored REITs, all of which had been fully syndicated and the Company no longer derives economic benefits or risks from the common stock interest that is retained in them. The Company holds a preferred stock investment in two of these Sponsored REITs, FSP Park Ten Development Corp. ("Park Ten Development") and FSP Phoenix Tower Corp. ("Phoenix Tower"), from which it continues to derive economic benefit and risk. Prior to April 2006, the Company held a preferred stock investment in FSP Blue Lagoon Drive Corp. ("Blue Lagoon"), which was one of the 2006 Target REITs acquired by merger on April 30, 2006, and accordingly was eliminated when recording the merger.

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

Notes to Consolidated Financial Statements (Unaudited)

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

The table below shows the Company's share of income and expenses from Sponsored REITs prior to consolidation. Management fees of \$11,000 and interest expense are eliminated in consolidation.

(in thousands)	Nine Months Ended September 30, 2006 ----
Operating Data:	
Rental revenues	\$ 1,215
Operating and maintenance expenses	554
Depreciation and amortization	288
Interest expense	479
Interest income	9

	\$ (97)
	=====

Equity in earnings of investment in non-consolidated REITs:

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

(in thousands)	Nine Months Ended September 30,	
	2006 ----	2005 ----
Equity in earnings of Sponsored REITs	\$ 623	\$1,101
Equity in earnings of Blue Lagoon	75	194
Equity in earnings of Park Ten Development	16	--
Equity in earnings of Phoenix Tower	3	--
	-----	-----
	\$ 717	\$1,295
	=====	=====

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 Blue Lagoon, Park Ten Development and Phoenix Tower was derived from the Company's preferred stock investment in those entities, which were acquired in January 2004, September 2005 and September 2006, respectively. Blue Lagoon was one of the 2006 Target REITs that the Company acquired by merger on April 30, 2006, which was accounted for as a purchase, and the acquired assets and liabilities were recorded at their fair value. In September 2006 the Company purchased 48 preferred shares or 4.57% 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).

The Company recorded distributions declared or received of \$724,000 and \$1,087,000 from Sponsored REITs during the nine months ended September 30, 2006 and 2005, respectively.

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

Non-consolidated REITs:

The Company has in the past acquired by merger entities similar to the Sponsored REITs, including on April 30, 2005, the four 2005 Target REITs, and on April 30, 2006, the five 2006 Target REITs. The Company's business model for growth includes the potential acquisition by merger in the future of Sponsored REITs. 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 stockholders of the Sponsored REIT.

At September 30, 2006, December 31, 2005 and September 30, 2005, the Company had ownership interests in nine, thirteen and twelve Sponsored REITs, respectively.

9

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

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

Summarized financial information for these Sponsored REITs is as follows:

	September 30, 2006 ----	December 31, 2005 ----
	(in thousands)	
Balance Sheet Data (unaudited):		
Real estate, net	\$ 316,134	\$ 403,161
Other assets	66,198	82,163
Total liabilities	(46,892)	(46,831)
	-----	-----
Shareholders' equity	\$ 335,440	\$ 438,493
	=====	=====
	For the Nine Months Ended September 30,	
	2006	2005
	----	----
	(in thousands)	
Operating Data (unaudited):		
Rental revenue	\$ 42,393	\$ 45,954
Other revenue	2,137	779
Operating and maintenance expenses	(21,526)	(18,759)
Depreciation and amortization	(9,623)	(10,109)
Interest expense and commitment fees	(8,602)	(5,499)
	-----	-----
Net income	\$ 4,779	\$ 12,366
	=====	=====

Syndication fees and Transaction fees:

The Company provides syndication and real estate acquisition advisory services for Sponsored REITs. Syndication and transaction fees from non-consolidated entities amounted to approximately \$12,835,000 and \$13,865,000 for the nine

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

months ended September 30, 2006 and 2005, 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 \$476,000 and \$514,000 for the nine months ended September 30, 2006 and 2005, respectively. The Company is typically entitled to interest on funds advanced to Sponsored REITs. The Company recognized interest income of approximately \$603,000 and \$1,088,000 for the nine months ended September 30, 2006 and 2005, respectively, relating to these loans.

10

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

4. Merger and Acquisition Transactions

On April 30, 2006, the Company issued 10,971,697 shares of common stock, \$0.0001 par value per share, in exchange for all of the outstanding preferred stock of the 2006 Target REITs (other than the shares of preferred stock in Blue Lagoon held by the Company, which were cancelled) and paid approximately \$12,000 in lieu of fractional shares. The results of operations for each 2006 Target REIT have been included in the Company's consolidated financial statements since May 1, 2006. The aggregate purchase price for the 2006 Target REITs was approximately \$235,384,000.

On June 27, 2006 the Company acquired a fifteen-story Class A office property located at 3625 Cumberland Boulevard in Atlanta, Georgia ("One Overton Park") for an aggregate purchase price of approximately \$85,177,000.

With respect to the acquisition of each 2006 Target REIT, the excess of the purchase price of the property over the historical cost of the property was allocated to real estate investments and leases, including lease origination costs. With respect to the acquisition of One Overton Park, the purchase price of the property was allocated to real estate investments and leases, including lease origination costs. Lease origination costs represent the value associated with acquiring an in-place lease (i.e. the market cost to execute a similar lease, including leasing commission, legal, vacancy, and other related costs). The value assigned to buildings approximates their replacement cost; the value assigned to land approximates its appraised value; and the value assigned to leases approximates their fair value. Other assets and liabilities are recorded at their historical costs, which approximates fair value. The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

	Value of Assets Acquired

	(in thousands)
Real estate assets	\$ 287,739
Value of acquired real estate leases	24,201
Cash	13,849
Acquired unfavorable leases	(1,738)
Other assets	512
Liabilities assumed	(4,002)

Total	\$ 320,561

=====

Pro forma operating results for the Company, the 2006 Target REITs and One Overton Place are shown in the following table. The results assume that the mergers occurred and the shares of the Company's stock were issued on January 1, 2005 and that One Overton Place was acquired on January 1, 2005. The results are not necessarily indicative of what the Company's actual results of operations would have been for the period indicated, nor do they purport to represent the results of operations of any future period.

(unaudited) (in thousands except per share amounts)	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue	\$29,918	\$31,756	\$98,089	\$83,460
Income from continuing operations	\$11,326	\$12,176	\$38,442	\$31,757
Net income	\$17,830	\$29,086	\$75,006	\$52,556
Weighted average shares outstanding	70,766	71,497	70,776	66,668
Income from continuing operations per share	\$ 0.16	\$ 0.17	\$ 0.54	\$ 0.48
Net income per share	\$ 0.25	\$ 0.41	\$ 1.06	\$ 0.79

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

5. Bank Note Payable

The Company has a revolving line of credit agreement (the "Loan Agreement") with a group of banks providing for borrowings at the Company's election of up to \$150,000,000. Borrowings under the Loan Agreement bear interest at either the bank's prime rate (8.25% at September 30, 2006) or a rate equal to LIBOR plus 125 basis points (6.57% at September 30, 2006). There was no balance outstanding at September 30, 2006 or at December 31, 2005. The weighted average interest rate on amounts outstanding during the nine months ended September 30, 2006 and 2005 was 6.50% and 5.27%, respectively; and for the year ended December 31, 2005 was approximately 5.35%.

The Loan Agreement includes restrictions on property liens and requires compliance with various financial covenants. Financial covenants include the maintenance of at least \$1,500,000 in operating cash accounts, a minimum unencumbered cash and liquid investments balance and tangible net worth, and compliance with various debt and operating income ratios, as defined in the Loan Agreement. The Company was in compliance with the Loan Agreement's financial covenants as of September 30, 2006 and December 31, 2005. Borrowings under the Loan Agreement mature on August 18, 2008.

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

6. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of Company shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at September 30, 2006 and 2005.

7. Discontinued Operations

During the year ended December 31, 2005, the Company disposed of three apartment properties and three commercial properties, which are in the real estate segment. The three apartment properties included two located in Houston, Texas, and one located in Baton Rouge, Louisiana. The three commercial properties included one located in Folsom, California; one in Columbia, Maryland and one located in San Diego, California. During the nine months ended September 30, 2006, the Company disposed of one apartment property and three commercial buildings, which are in the real estate segment. The apartment property is located in Katy, Texas. The three commercial properties are located in Santa Clara, California, Fairfax, Virginia and Peabody, Massachusetts.

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

(in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2006	2005	2006	2005
Rental revenue	\$ 153	\$ 5,738	\$ 4,420	\$ 16,944
Rental operating expenses	(9)	(1,396)	(1,202)	(3,922)
Real estate taxes and insurance	(1)	(670)	(474)	(2,066)
Depreciation and amortization	--	(1,084)	(649)	(3,411)
Interest and other income	--	6	--	--
Net income from discontinued operations	\$ 143	\$ 2,594	\$ 2,095	\$ 7,545

The gains from the properties sold are summarized below:

(in thousands)	City/ State	Property Type	Date of Sale	Net Sale Proceeds
22400 Westheimer Parkway	Katy, TX	Apartment	May 24, 2006	\$18,000
4995 Patrick Henry Drive	Santa Clara, CA	Office	May 31, 2006	8,000
12902 Federal Systems Park Drive	Fairfax, VA	Office	May 31, 2006	61,000
One Technology Drive	Peabody, MA	Industrial	August 9, 2006	15,000
				\$103,000

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

The gain recognition from the sale of the properties in Texas and Virginia was deferred for tax purposes through the use of a Section 1031 exchange.

12

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

8. Cash Distributions

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

Quarter Paid	Distribution Per Share	Total Distributions
First quarter of 2006	\$0.31	\$18,536
Second quarter of 2006	\$0.31	\$18,536
Third quarter of 2006	\$0.31	\$21,938
First quarter of 2005	\$0.31	\$15,385
Second quarter of 2005 (a)	\$0.41	\$20,349
Third quarter of 2005 (b)	\$0.21	\$12,711

(a) Distribution paid in respect of four months of operations.

(b) Distribution paid in respect of two months of operations.

9. Business Segments

The Company operates in two business segments: real estate operations (including real estate leasing, interim acquisition financing, development, asset/property management and property dispositions) and investment banking/investment services (including real estate acquisition and broker/dealer services). The Company has identified these segments because this information is the basis upon which management makes decisions regarding resource allocation and performance assessment. The accounting policies of the reportable segments are the same as those described in the "Significant Accounting Policies" in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2005. The Company's operations are located in the United States of America.

The Company evaluates the performance of its reportable segments based on Adjusted Funds From Operations ("AFFO") as management believes that AFFO represents the most accurate measure of the reportable segment's activity and is the basis for distributions paid to equity holders. The Company defines AFFO as: net income as computed in accordance with generally accepted accounting principles in the United States (or GAAP); excluding gains or losses on the sale of real estate and non-cash income from Sponsored REITs; plus certain non-cash items included in the computation of net income (depreciation and amortization and straight-line rent adjustments); plus distributions received from Sponsored REITs; plus the net proceeds from the sale of land; less recurring purchases of property and equipment incurred to maintain the assets' value or for tenant improvements ("Capital Expenditures") and payments for deferred leasing commissions, plus proceeds from (payments to) funded reserves. Depreciation and amortization, gain or loss on the sale of real estate, and straight-line rents are an adjustment to AFFO, as these are non-cash items included in net income. Capital Expenditures, payments of deferred leasing commissions and the proceeds

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

from (payments to) the funded reserve are an adjustment to AFFO, as they represent cash items not reflected in net income.

The funded reserve represents funds that the Company has set aside from time to time in anticipation of future capital needs. These reserves are typically used for the payment of Capital Expenditures, deferred leasing commissions and certain tenant allowances; however, there are no legal restrictions on their use and they may be used for any Company purpose. AFFO should not be considered as an alternative to net income (determined in accordance with GAAP), as an indicator of the Company's financial performance, as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs. Other real estate companies may define AFFO in a different manner. It is at the Company's discretion to retain a portion of AFFO for operational needs. We believe that in order to facilitate a clear understanding of the results of the Company, AFFO should be examined in connection with net income and cash flows from operating, investing and financing activities in the consolidated financial statements.

13

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

9. Business Segments (continued)

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

(in thousands)	Real Estate Operations -----	Investment Banking/ Services -----	Total -----
 Three Months Ended March 31, 2006			
Net Income	\$ 13,054	\$ 85	\$ 13,139
Equity in income of non-consolidated REITs	(275)	--	(275)
Distributions from non-consolidated REITs	118	--	118
Depreciation and amortization	7,100	33	7,133
Straight line rent	200	--	200
Capital Expenditures	(232)	(36)	(268)
Payment of deferred leasing costs	(156)	--	(156)
Proceeds from funded reserves	388	36	424
	-----	-----	-----
Adjusted Funds From Operations	\$ 20,197	\$ 118	\$ 20,315
	=====	=====	=====
 Three Months Ended June 30, 2006			
Net Income	\$ 39,993	\$ 484	\$ 40,477
Gain on sale of assets, net	(28,108)	--	(28,108)
Equity in income of non-consolidated REITs	(156)	--	(156)
Distributions from non-consolidated REITs	491	--	491
Depreciation and amortization	7,481	32	7,513
Straight line rent	(139)	--	(139)
Capital Expenditures	(1,492)	(24)	(1,516)
Payment of deferred leasing costs	(2,617)	--	(2,617)
Proceeds from funded reserves	4,109	24	4,133
	-----	-----	-----

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

Adjusted Funds From Operations	\$ 19,562	\$ 516	\$ 20,078
	=====	=====	=====
Three Months Ended September 30, 2006			
Net Income	\$ 18,025	\$ (195)	\$ 17,830
Gain on sale of assets, net	(6,361)	--	(6,361)
Equity in income of non-consolidated REITs	(481)	--	(481)
Distributions from non-consolidated REITs	115	--	115
Depreciation and amortization	8,732	28	8,760
Straight line rent	(590)	--	(590)
Capital Expenditures	(3,877)	(50)	(3,927)
Payment of deferred leasing costs	(1,649)	--	(1,649)
Proceeds from funded reserves	5,526	50	5,576
	-----	-----	-----
Adjusted Funds From Operations	\$ 19,440	\$ (167)	\$ 19,273
	=====	=====	=====
Nine Months Ended September 30, 2006			
Net Income	\$ 71,072	\$ 374	\$ 71,446
Gain on sale of assets, net	(34,469)	--	(34,469)
Equity in income of non-consolidated REITs	(912)	--	(912)
Distributions from non-consolidated REITs	724	--	724
Depreciation and amortization	23,313	93	23,406
Straight line rent	(529)	--	(529)
Capital Expenditures	(5,601)	(110)	(5,711)
Payment of deferred leasing costs	(4,422)	--	(4,422)
Proceeds from funded reserves	10,023	110	10,133
	-----	-----	-----
Adjusted Funds From Operations	\$ 59,199	\$ 467	\$ 59,666
	=====	=====	=====

14

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

9. Business Segments (continued)

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

(in thousands)	Real Estate Operations	Investment Banking/ Services	Total
	-----	-----	-----
Three Months Ended March 31, 2005			
Net Income	\$ 10,346	\$ 77	\$ 10,423
Equity in income of non-consolidated REITs	(665)	--	(665)
Distributions from non-consolidated REITs	599	--	599
Depreciation and amortization	3,598	34	3,632
Straight line rent	(307)	--	(307)
Capital Expenditures	(327)	--	(327)
Payment of deferred leasing costs	(95)	--	(95)
Proceeds from funded reserves	422	--	422

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

	-----	-----	-----
Adjusted Funds From Operations	\$ 13,571	\$ 111	\$ 13,682
	=====	=====	=====
Three Months Ended June 30, 2005			
Net Income	\$ 9,362	\$ 92	\$ 9,454
Estimated loss on sale of asset	1,055	--	1,055
Equity in income of non-consolidated REITs	(303)	--	(303)
Distributions from non-consolidated REITs	381	--	381
Depreciation and amortization	5,448	37	5,485
Straight line rent	(417)	--	(417)
Capital Expenditures	(1,601)	--	(1,601)
Payment of deferred leasing costs	(216)	--	(216)
Proceeds from funded reserves	1,817	--	1,817
	-----	-----	-----
Adjusted Funds From Operations	\$ 15,526	\$ 129	\$ 15,655
	=====	=====	=====
Three Months Ended September 30, 2005			
Net Income	\$ 26,545	\$ 270	\$ 26,815
Estimated loss on sale of asset	(14,316)	--	(14,316)
Equity in income of non-consolidated REITs	(328)	--	(328)
Distributions from non-consolidated REITs	107	--	107
Depreciation and amortization	6,834	30	6,864
Straight line rent	(443)	--	(443)
Capital Expenditures	(312)	(48)	(360)
Payment of deferred leasing costs	(199)	--	(199)
Proceeds from funded reserves	511	48	559
	-----	-----	-----
Adjusted Funds From Operations	\$ 18,399	\$ 300	\$ 18,699
	=====	=====	=====
Nine Months Ended September 30, 2005			
Net Income	\$ 46,253	\$ 439	\$ 46,692
Estimated loss on sale of asset	(13,261)	--	(13,261)
Equity in income of non-consolidated REITs	(1,296)	--	(1,296)
Distributions from non-consolidated REITs	1,087	--	1,087
Depreciation and amortization	15,880	101	15,981
Straight line rent	(1,167)	--	(1,167)
Capital Expenditures	(2,240)	(48)	(2,288)
Payment of deferred leasing costs	(510)	--	(510)
Proceeds from funded reserves	2,750	48	2,798
	-----	-----	-----
Adjusted Funds From Operations	\$ 47,496	\$ 540	\$ 48,036
	=====	=====	=====

9. Business Segments (continued)

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

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

segment:

(in thousands)	Real Estate Operations -----	Investment Banking/ Services -----	Total -----
Three Months Ended September 30, 2006:			
Revenue	\$ 28,845	\$ 1,073	\$ 29,918
Interest income	722	13	735
Interest expense	119	--	119
Income from discontinued operations	143	--	143
Capital expenditures	3,877	50	3,927
Nine Months Ended September 30, 2006:			
Revenue	\$ 79,464	\$ 7,023	\$ 86,487
Interest income	2,045	35	2,080
Interest expense	1,259	--	1,259
Income from discontinued operations	2,095	--	2,095
Capital expenditures	5,601	110	5,711
Identifiable Assets as of September 30, 2006	\$921,545	\$ 5,291	\$926,836
Three Months Ended September 30, 2005:			
Revenue	\$ 21,332	\$ 3,109	\$ 24,441
Interest income	442	9	451
Interest expense	1,082	--	1,082
Income from discontinued operations	2,594	--	2,594
Capital expenditures	312	48	360
Nine Months Ended September 30, 2005:			
Revenue	\$ 54,094	\$ 7,746	\$ 61,840
Interest income	1,024	24	1,048
Interest expense	2,825	--	2,825
Income from discontinued operations	7,541	--	7,541
Capital expenditures	2,240	48	2,288
Identifiable Assets as of September 30, 2005	\$714,260	\$ 4,979	\$719,239

10. Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company generally is entitled to a tax deduction for dividends paid to its stockholders, thereby effectively subjecting the distributed net income of the Company to taxation at the stockholder 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 stockholders it can have and the concentration of their ownership, and the amount of the Company's income that must be distributed annually.

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

(Unaudited)

10. Income Taxes (continued)

One such restriction is that the Company generally cannot own more than 10% of the voting power or value of the securities of any one issuer unless the issuer is itself a REIT or a "taxable REIT subsidiary" ("TRS"). In the case of TRSs, the Company's ownership of securities in all TRSs generally cannot exceed 20% of the value of all of the Company's assets and, when considered together with other non-real estate assets, cannot exceed 25% of the value of all of the Company's assets. Effective January 1, 2001, FSP Investments LLC, a wholly-owned subsidiary of the Company, elected to be treated as a TRS. As a result, FSP Investments LLC operates as a taxable corporation under the Code and has accounted for income taxes in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 109, Accounting for Income Taxes. Taxes are provided for when FSP Investments LLC has net profits for both financial statement and income tax purposes.

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

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

(in thousands)	For the Nine Months Ended September 30,	
	2006	2005
	----	----
Federal income tax expense at statutory rate	\$ 230	\$ 252
Increase in taxes resulting from:		
State income taxes, net of federal impact	43	46
	-----	-----
	\$ 273	\$ 298
	=====	=====

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

11. Subsequent Events

The Company declared a cash distribution of \$0.31 per share on October 13, 2006 to stockholders of record on October 31, 2006 payable on November 20, 2006.

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, 2005. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as

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

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 changes in economic conditions in the markets in which we own properties, changes in the demand by investors for investment in Sponsored REITs, risks of a lessening of demand for the types of real estate owned by us, changes in government regulations, and expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs, additional staffing, insurance increases and real estate tax valuation reassessments. See the factors set forth below under the caption, Item 1A. "Risk Factors". Although we believe the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We may not update any of the forward-looking statements after the date this Quarterly Report on Form 10-Q is filed to conform them to actual results or to changes in our expectations that occur after such date, other than as required by law.

Overview

FSP Corp., or the Company, operates in two business segments: real estate operations and investment banking/investment services. The real estate operations segment involves real estate rental operations, leasing, interim acquisition financing, development services asset/property management services and property dispositions. The investment banking/investment services segment involves the provision of real estate investment and broker/dealer services that include the organization of Sponsored REITs, the acquisition and development of real estate on behalf of Sponsored REITs and the raising of capital to fully equitize the Sponsored REITs through sale of preferred stock in private placements.

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

Our investment banking/investment services customers are primarily institutions and high net-worth individuals. To the extent that the broad capital markets affect these investors our business is also affected. These investors have many investment choices. We must continually search for real estate at a price and at a competitive risk/reward rate of return that meets our customers' risk/reward profile for providing a stream of income and as a long-term hedge against inflation.

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

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

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, 2005.

Critical accounting policies are those that have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and assessments are consistently applied and produce financial information that fairly presents our results of operations.

No changes to our critical accounting policies have occurred since our Annual Report on Form 10-K for the year ended December 31, 2005.

18

Trends and Uncertainties

Real Estate Operations

Our property operations during the first nine months of 2006 produced profit results that were generally in line with management's expectations. Most of our properties are suburban office buildings, and, in most markets, it is management's opinion that we are continuing to find improving conditions for both occupancy and rental rates. However, there are still tenant leases, originally five to ten years in length, which were signed at what we believe to be the height of the most recent office market cycle (approximately from 1997-2001). Consequently, we continue to face some rent roll downs as old leases expire and new ones are signed. We also believe that national occupancy levels continue to improve, but rent levels in most office markets are still only modestly increasing from a very low level. We believe that significant broad-based rental increases, above the 1997-2001 peak, are probably one to three years away, assuming continued overall U.S. economic growth and traditional cyclical real estate dynamics. We are aggressively managing our lease turnover to maximize our rental operations' contribution as the office markets continue to climb back up their cyclical curve. Concern always remains about the possibility of a new, significant downturn in the broader economy that would reverse the positive trends our markets are starting to see. Lofty worldwide energy prices, inflation, interest rates and other geopolitical events are likely to be influencing factors.

We evaluate our portfolio and from time-to-time sell properties for geographic or property specific reasons, and consider gains and losses on sales of properties an important component of our business. During the nine months ended September 30, 2006 we sold four properties and achieved gains on those sales of \$34.5 million. During the comparable nine months ended September 30, 2005 we sold three properties and achieved net gains on those sales of \$13.3 million. Historically we have used the sales proceeds from property sales to acquire other properties for our portfolio, and to a lesser extent for distributions to our stockholders, share repurchases or other uses. We continue to evaluate and upgrade the portfolio and may decide to dispose of other properties as part of that process.

The portfolio was approximately 89% leased at September 30, 2006, which is 2% lower than the leased percentage at June 30, 2006, and was the result of 117,227 square feet of vacancy following a lease expiration at a single tenant property in the State of Washington. At the start of 2006, we forecasted that approximately 17% of the square footage in our real estate portfolio would expire during fiscal year 2006. As a result of expected lease expirations, new leases, property sales, acquisitions and mergers, we are now forecasting that approximately 4.8% of the square footage in our real estate portfolio will

expire during the balance of fiscal year 2006. We cannot predict if these tenants will renew their leases or what the terms and conditions of any lease renewals will be, although we expect to renew or sign new leases at current market rates for the locations where the buildings are located, which in most cases will be below the expiring rental rates. Based upon all available information at this time, we are forecasting that leases for approximately 11.9% of the square footage in our real estate portfolio will expire during fiscal year 2007.

Investment Banking/Investment Services

Unlike our real estate operations business, which provides a rental revenue stream which is ongoing and recurring in nature, our investment banking/investment services business is transactional in nature. Both the number of Sponsored REIT syndications completed and the amount of equity raised in 2005 were below our expectations. During the first nine months of 2006 our investment banking group completed sales of preferred stock in a private placement, which we call syndication proceeds, of \$100.2 million. In October, we commenced a new private placement with the potential to raise \$70 million for another Sponsored REIT. However, the timing and completion of private placements and future business in this area are unpredictable.

Our property acquisition executives continue to be concerned about high valuation levels for prime commercial investment real estate. It appears that a combination of factors, including moderate interest rates, a growing general economy and substantially increased capital allocation to real estate assets is increasing prices on many properties we would have an interest in acquiring. This upward pressure on prices has caused capitalization rates to fall and prices per square foot to rise. Specifically, our acquisition executives are having difficulty identifying enough property at a price acceptable under our investment criteria to grow our overall investment banking/investment services business. Lower revenue from this business has the effect of reducing net income and Adjusted Funds From Operations (AFFO). As the first nine months of 2006 ended, valuation levels for many top quality investment properties remained at historically high levels, with significant competition from a variety of capital sources to acquire them. We continue to rely solely on our in-house investment executives to access interested investors who have capital they can afford to place in an illiquid position for an indefinite period of time (i.e., invest in a Sponsored REIT). We also continue to evaluate whether our in-house sales force is capable, either through our existing client base or through new clients, of raising sufficient investment capital in Sponsored REITs to achieve future performance objectives.

Results of Operations

We consider contribution from each of our two business segments, real estate operations and investment banking/investment services, in evaluating performance. Contribution includes revenue from each segment, less related expenses such as rental property operating expenses, depreciation and amortization, commissions and interest income and expense. Selling, general and administrative expenses arise primarily from corporate related expenses and costs associated with our headquarters in Wakefield, Massachusetts where both business segments are managed. Over the last few years there has been a shift in expense and cost allocation between the segments from being primarily related to investment banking activity to a greater focus on real estate operations. This shift has occurred as a result of:

- o The increase in the number of owned properties in our real estate

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

portfolio, and related direct acquisition and disposition of real estate assets;

- o The trend to a lower level of syndication proceeds from the investment banking segment; and
- o An increased level of management time related to our real estate operations.

As a result of this internal shift, we compare the total selling, general and administrative expenses from period-to-period as we believe it to be more meaningful than comparison of allocated expenses to each segment.

20

The following table shows financial results from each segment for the three months ended September 30, 2006 and 2005:

(in thousands)

	Three months ended September 30,		
	2006	2005	Change
Real Estate Operations			
Revenues:			
Rental income	\$ 27,703	\$ 18,582	\$ 9,121
Transaction fees	928	2,597	(1,669)
Management fees and interest income from loans	210	149	61
Other income	4	4	--
	28,845	21,332	7,513
Expenses:			
Real estate operating expenses	6,523	4,335	2,188
Real estate taxes and insurance	4,030	2,512	1,518
Depreciation and amortization	6,754	3,681	3,073
Interest	119	1,082	(963)
	17,426	11,610	5,816
Other items:			
Interest income	722	442	280
Equity in earnings in non-consolidated REIT's	481	328	153
	1,203	770	433
Contribution from real estate	12,622	10,492	2,130
Investment Banking/Investment Services:			
Syndication fees	861	2,856	(1,995)
Transaction fees	212	253	(41)
	1,073	3,109	(2,036)
Expenses:			
Commissions	458	1,457	(999)

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

Depreciation and amortization	28	30	(2)
	-----	-----	-----
	486	1,487	(1,001)
	-----	-----	-----
Other items:			
Interest income	13	9	4
Taxes on income	131	(184)	315
	-----	-----	-----
	144	(175)	319
	-----	-----	-----
Contribution from investment banking	731	1,447	(716)
	-----	-----	-----
Selling, general and administrative expenses	2,027	2,034	(7)
	-----	-----	-----
Income from continuing operations (Combined)	11,326	9,905	1,421
Discontinued operations, less applicable income tax:			
Income (Loss) from discontinued operations	143	2,594	(2,451)
Gains (estimated loss) on sales of assets, net	6,361	14,316	(7,955)
	-----	-----	-----
Net income	\$ 17,830	\$ 26,815	\$ (8,985)
	=====	=====	=====

21

General

The real estate segment includes operating results of properties held in our real estate portfolio, commitment fee income earned on real estate loans and development fees earned for services provided. During 2005 we increased the real estate portfolio by four properties from a merger and two properties by acquisitions completed during the year. We also sold six properties in the second half of 2005 and reached an agreement to sell another property, which closed in the second quarter of 2006. As a result, as of December 31, 2005 we operated 27 properties and had one property held for sale. During the first nine months of 2006 we acquired the five 2006 Target REITs by merger, acquired two additional properties and sold four properties, including the property held for sale at December 31, 2005. As a result, as of September 30, 2006 we operated 31 properties.

Acquisitions, Mergers and Dispositions:

In February 2005 we acquired one commercial property in Colorado, on April 30, 2005 we completed the acquisition by merger of the four 2005 Target REITs, and in July 2005 we acquired one commercial property in Indiana. On February 24, 2006 we acquired one commercial property in Texas, on April 30, 2006 we completed the acquisition by merger of the five 2006 Target REITs and on June 27, 2006 we acquired a commercial property in Georgia. The results of operations for each of the acquired or merged properties are included in our operating results as of their respective purchase or merger dates. Increases in rental revenues and expenses for the three and nine months ended September 30, 2006 as compared to the same periods in 2005 are primarily a result of the timing of these acquisitions and subsequent contribution of these acquired properties. The operating results of the ten properties sold were classified as discontinued operations in our financial statements for all periods presented.

Investment Banking:

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

The investment banking/investment services segment is primarily based on the gross proceeds from the sale of securities of the Sponsored REITs. During the three and nine months ended September 30, 2006 our investment banking/investment services segment had total gross proceeds of \$15.9 and \$100.2 million, respectively, which was derived from the syndication of FSP Phoenix Tower Corp. For the three and nine months ended September 30, 2005 there were total gross proceeds of \$44.0 million and \$105.3 million, respectively, which included completion of the syndications for FSP 505 Waterford Corp., FSP Galleria North Corp. and FSP Park Ten Development Corp. As a result, total gross proceeds for the three and nine month periods ended September 30, 2006 decreased \$28.1 million and \$5.1 million, respectively, compared to the same periods in 2005. The syndication of FSP Phoenix Tower Corp. commenced in February 2006, and closed on September 22, 2006.

Comparison of the three months ended September 30, 2006 to the three months ended September 30, 2005

Overview

Total revenues increased \$5.5 million or 22.4%, to \$29.9 million for the three months ended September 30, 2006, as compared to \$24.4 million for the three months ended September 30, 2005. Total expenses increased \$4.8 million or 31.8%, to \$19.9 million for the three months ended September 30, 2006. The increases were primarily attributable to properties acquired in the last twelve months and were partially offset by decreases in investment banking activity in the three months ended September 30, 2006 compared to the three months ended September 30, 2005.

Each segment is discussed below.

Real Estate Operations

Contribution from the real estate segment increased \$2.1 million or 20.3%, to \$12.6 million for the three months ended September 30, 2006 compared to \$10.5 million for the three months ended September 30, 2005. The increase is primarily attributable to:

- o An increase in real estate operating income of \$5.4 million to \$17.1 million for the three months ended September 30, 2006 compared to \$11.7 million for same period in 2005. We define real estate operating income as rental revenues less real estate operating expenses, real estate taxes and insurance. The increase was primarily a result of:
 - Real estate operating income from our acquisition of the four 2005 Target REITs by merger on April 30, 2005, acquisitions by direct purchase of properties in Colorado during February 2005, Indiana during July 2005, Texas during February 2006, our acquisition of the five 2006 Target REITs by merger on April 30, 2006, and the acquisition of a property in Georgia in late June 2006. Real estate operating income from acquisitions is included in current operating income. Collectively, these acquisitions resulted in an increase in real estate operating income for the third quarter of 2006 compared to the third quarter of 2005; and
 - Lease termination payments of \$1.7 million from tenants at properties in Colorado, Indiana and Texas in the third quarter of 2006, as compared to \$0.7 million from a tenant at a property in

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

Texas during the three months ended September 30, 2005.

- o A decrease in interest expense of \$1.0 million resulting from a lower average loan balance outstanding for syndications in process during the three months ended September 30, 2006 compared to the three months ended September 30, 2005. A contributing factor was the use of our cash as a source of funds to finance a portion of the syndication of FSP Phoenix Tower, which was completed on September 22, 2006. The decrease was partially offset by higher interest rates and loan fees in the 2006 period than the 2005 period.
- o An increase to interest income of \$0.3 million during the three months ended September 30, 2006, which was primarily a result of higher interest rates earned on higher average balances of cash, cash equivalents and other investments compared to the three months ended September 30, 2005.

These increases were partially offset by:

- o A \$1.7 million decrease in transaction (loan commitment) fees, which was principally caused by the decrease in gross syndication proceeds in the third quarter of 2006 compared to the same period in 2005.
- o An increase in depreciation expense of \$3.1 million to \$6.8 million for the three months ended September 30, 2006 as compared to \$3.7 million for the same period in 2005. The increase was primarily a result of property acquisitions over the last twelve months.

Investment Banking/Investment Services

Contribution from the investment banking and services segment was \$0.7 million for the three months ended September 30, 2006, a decrease of \$0.7 million, compared to the three months ended September 30, 2005, which was primarily attributable to:

- o A decrease in syndication and transaction fee revenues of \$2.0 million, which was primarily attributable to a lower level of gross syndication proceeds during the three months ended September 30, 2006 compared to the three months ended September 30, 2005.

The decrease was partially offset by:

- o A decrease in commission expense of \$1.0 million, which relates to the decrease in gross syndication proceeds.
- o A decrease to income tax expense of \$0.3 million as a result of lower pre-tax income from investment banking for the three months ended September 30, 2006 compared to the three months ended September 30, 2005.

Selling, general and administrative expenses

Selling, general and administrative expenses did not change significantly between the three months ended September 30, 2006 and 2005. We had 40 employees as of September 30, 2006 at our headquarters in Wakefield compared to 35 employees as of September 30, 2005.

Income from continuing operations

Contribution from both segments, net of selling, general and administrative expenses for the third quarter of 2006 increased \$1.4 million to \$11.3 million compared the third quarter of 2005 for the reasons discussed above.

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

Discontinued Operations

During 2005 we sold six properties and classified one property in Santa Clara, California as held for sale. The Santa Clara property was sold in the second quarter of 2006 at a gain. Of the six properties sold during 2005, one was sold at a loss that was recorded in the second quarter of 2005. Two properties were sold during the second quarter of 2005 resulting in a gain of \$14.3 million. The remaining three properties were sold in the fourth quarter of 2005 at gains. During 2006 we sold four properties, including one during the three months ended September 30, 2006, that resulted in a gain of \$6.4 million.

23

Accordingly, each of the six properties sold in 2005 and the four properties sold in 2006 are reported as discontinued operations on our financial statements for the relevant periods presented. Income from discontinued operations of \$0.1 million for the three months ended September 30, 2006 resulted from the industrial property in Peabody, Massachusetts, which was sold on August 9, 2006. Income from discontinued operations of \$2.6 million for the three months ended September 30, 2005 resulted from the ten properties sold in 2006 and 2005.

During the first and third quarter of 2005 we acquired two office properties, one in Englewood, Colorado and another in Indianapolis, Indiana, through borrowings under the Loan Agreement. During February 2006 we acquired an office property in Addison, Texas with cash. Proceeds from the sale of properties during 2005 were used to repay the borrowings and provided a source of cash used to acquire the property in 2006. Proceeds from the sale of the three properties sold during the second quarter of 2006 were used to acquire an office property in Atlanta, Georgia on June 27, 2006.

We will continue to evaluate our portfolio, and from time-to-time may decide to dispose of other properties.

Net Income

Net income for the three months ended September 30, 2006 decreased \$9.0 million to \$17.8 million compared to \$26.8 million for the reasons discussed above.

24

The following table shows financial results from each segment for the nine months ended September 30, 2006 and 2005:

(in thousands)

	Nine months ended September 30,		
	2006	2005	Change
Real Estate Operations			
Revenues:			
Rental income	\$ 72,547	\$ 46,373	\$ 26,174
Transaction fees	5,812	6,119	(307)
Management fees and interest income from loans	1,079	1,602	(523)
Other income	26	--	26

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

	79,464	54,094	25,370
Expenses:			
Real estate operating expenses	16,306	9,928	6,378
Real estate taxes and insurance	9,974	6,386	3,588
Depreciation and amortization	17,423	9,505	7,918
Interest	1,259	2,825	(1,566)
	44,962	28,644	16,318
Other items:			
Interest income	2,045	1,024	1,021
Equity in earnings in non-consolidated REIT's	717	1,295	(578)
	2,762	2,319	443
Contribution from real estate	37,264	27,769	9,495
Investment Banking/Investment Services:			
Syndication fees	6,287	6,977	(690)
Transaction fees	736	769	(33)
	7,023	7,746	(723)
Expenses:			
Commissions	3,290	3,648	(358)
Depreciation and amortization	92	101	(9)
	3,382	3,749	(367)
Other items:			
Interest income	35	24	11
Taxes on income	(273)	(298)	25
	(238)	(274)	36
Contribution from investment banking	3,403	3,723	(320)
Selling, general and administrative expenses	5,785	5,601	184
Income from continuing operations (Combined)	34,882	25,891	8,991
Discontinued operations, less applicable income tax:			
Income (Loss) from discontinued operations	2,095	7,541	(5,446)
Gains (estimated loss) on sales of assets, net	34,469	13,260	21,209
Net income	\$ 71,446	\$ 46,692	\$ 24,754

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

Overview

Total revenues increased \$24.6 million, or 39.9%, to \$86.4 million for the nine months ended September 30, 2006, as compared to \$61.8 million for the nine months ended September 30, 2005. Total expenses increased \$16.1 million or 42.5% to \$54.1 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The increases were primarily attributable to properties acquired in the last twelve months, which were slightly offset by reduced investment banking activity in the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005.

Each segment is discussed in greater detail below.

Real Estate Operations

Contribution from the real estate segment increased \$9.5 million or 34.2% to \$37.3 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The increase is primarily attributable to:

- o An increase in real estate operating income of \$16.2 million to \$46.3 million for the nine months ended September 30, 2006 compared to \$30.1 million for same period in 2005. We define real estate operating income as rental revenues less real estate operating expenses, real estate taxes and insurance. The increase was primarily a result of:
 - Real estate operating income from our acquisition of the four 2005 Target REITs by merger on April 30, 2005, acquisitions by direct purchase of properties in Colorado during February 2005, Indiana during July 2005, Texas during February 2006, our acquisition of the five 2006 Target REITs by merger on April 30, 2006, and the acquisition of a property in Georgia in late June 2006. Real estate operating income from acquisitions is included in current operating income. Collectively, these acquisitions resulted in an increase in real estate operating income for the nine months ended September 30, 2006 compared to same period in 2005; and
 - Lease termination payments of \$6.6 million, including \$4.7 million from a tenant in Illinois, \$1.4 million from a tenant in Colorado, \$0.3 million from a tenant in Indiana and \$0.2 million from a tenant in Texas during the nine months ended September 30, 2006 as compared to \$0.7 million from a tenant at a property in Texas during the nine months ended September 30, 2005.
- o A decrease in interest expense of \$1.6 million resulting from a lower average loan balance outstanding for syndications in process during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. A contributing factor was the use of our cash as a source of funds to finance a portion of the syndication of FSP Phoenix Tower Corp., which was completed on September 22, 2006. The decrease was partially offset by higher interest rates and loan fees in the 2006 period than the 2005 period.
- o An increase to interest income of \$1.0 million during the nine months ended September 30, 2006, which was primarily a result of higher interest rates earned on higher average balances of cash, cash equivalents and other investments compared to the nine months ended September 30, 2005.

These increases were partially offset by:

- o A \$0.3 million decrease in transaction (loan commitment) fees, which was principally caused by the decrease in gross syndication proceeds in the nine months ended September 30, 2006 compared to the same period in 2005.

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

- o A decrease in management fees and loan interest income of \$0.5 million principally as a result of decreased loan interest income from interim mortgages made to Sponsored REITs. The decrease related to lower balances of loans outstanding during the nine months ended September 30, 2006 compared to the same period in 2005. The impact of this decrease was partially mitigated by an increase in overall interest rates in the nine months ended September 30, 2006 compared to the prior period.
- o An increase in depreciation expense of \$7.9 million to \$17.4 million for the nine months ended September 30, 2006 as compared to \$9.5 million for the same period in 2005. The increase was primarily a result of property acquisitions over the last twelve months.
- o A decrease in equity in income from non-consolidated REITs of \$0.6 million, which was principally a result of the timing of investor closings on the syndication in process during the nine months ended September 30, 2006 compared to the syndications in process during the same period in 2005.

Investment Banking/Investment Services

Contribution from the investment banking and services segment decreased \$0.3 million to \$3.4 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The decrease was primarily attributable to:

26

- o A decrease in syndication fee revenues of \$0.7 million, which was primarily attributable to a lower level of gross syndication proceeds during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005.

The decrease was partially offset by:

- o A decrease in commission expense of \$0.4 million, which relates to the decrease in gross syndication proceeds.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$0.2 million to \$5.8 million for the nine months ended September 30, 2006 compared to \$5.6 million for the nine months ended September 30, 2005, which were primarily from costs of monitoring and managing a larger portfolio of REITs and expenses incurred related to the listing of our stock on the American Stock Exchange, which commenced on June 2, 2005. We had 40 employees as of September 30, 2006 at our headquarters in Wakefield compared to 35 employees as of September 30, 2005.

Income from continuing operations

Contribution from both segments, net of selling, general and administrative expenses for the nine months ended September 30, 2006 increased \$9.0 million to \$34.9 million compared to \$25.9 million for the nine months ended September 30, 2005 for the reasons discussed above.

Discontinued Operations

During 2005 we sold six properties and classified one property in Santa

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

Clara, California as held for sale. The Santa Clara property was sold in the second quarter of 2006 at a gain. Of the six properties sold during 2005, three were sold during the nine months ended September 30, 2005 at a net gain of \$13.3 million. The remaining three properties were sold in the fourth quarter of 2005 at gains. During the nine months ended September 30, 2006 we sold four properties resulting in a gain of \$34.5 million.

Accordingly, each of the six properties sold in 2005 and the four properties sold in 2006 are reported as discontinued operations on our financial statements for the relevant periods presented. Income from discontinued operations of \$2.1 million for the nine months ended September 30, 2006 resulted from the sale of the four properties in 2006. Income from discontinued operations of \$7.5 million for the nine months ended September 30, 2005 resulted from the ten properties sold in 2006 and 2005.

During the first and third quarter of 2005 we acquired two office properties, one in Englewood, Colorado and another in Indianapolis, Indiana, through borrowings under the Loan Agreement. During February 2006 we acquired an office property in Addison, Texas with cash. Proceeds from the sale of properties during 2005 were used to repay the borrowings and provided a source of cash used to acquire the property in 2006. Proceeds from the sale of the three properties sold during the second quarter of 2006 were used to acquire an office property in Atlanta, Georgia on June 27, 2006.

We will continue to evaluate our portfolio, and from time-to-time may decide to dispose of other properties.

Net Income

Net income for the nine months ended September 30, 2006 increased \$24.8 million to \$71.4 million compared to \$46.7 million for the reasons discussed above.

27

Liquidity and Capital Resources

Cash and cash equivalents were \$61.0 million at September 30, 2006 and \$69.7 million at December 31, 2005. This decrease of \$8.7 million is attributable to \$57.7 million provided by operating activities, less \$7.3 million used for investing activities, less \$59.1 million used for financing activities. Management believes that existing cash, cash anticipated to be generated internally by operations, cash anticipated to be generated by fees and commissions from the sale of preferred stock in future Sponsored REITs and our line of credit will be sufficient to meet working capital requirements and anticipated capital expenditures and improvements for at least the next 12 months. Although there is no guarantee that we will be able to obtain the funds necessary for our future growth, we anticipate generating funds from continuing real estate operations and from fees and commissions from the sale of shares in newly formed Sponsored REITs. We believe that we have adequate funds to cover unusual expenses and capital improvements, in addition to normal operating expenses. Our ability to maintain or increase our level of distributions to stockholders, however, depends in significant part upon the level of interest on the part of investors in purchasing shares of Sponsored REITs and the level of rental income from our real properties.

Operating Activities

The cash provided by our operating activities of \$57.7 million for the nine months ended September 30, 2006 is primarily attributable to net income of

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

\$71.4 million excluding non-cash activity, consisting primarily of gains on sales of assets of \$34.5 million, depreciation and amortization of \$23.4 million; less payment of deferred leasing commissions of \$4.4 million; plus changes in operating assets and liabilities of \$1.8 million arising from the timing of cash collection and payments.

Investing Activities

Our cash used for investing activities of \$7.3 million for the nine months ended September 30, 2006 is primarily attributable to the purchase of properties in Atlanta, Georgia for \$85.2 million and Addison, Texas for \$26.4 million; additions to real estate investments and office equipment of approximately \$5.7 million; a preferred share investment of \$4.1 million in FSP Phoenix Tower Corp.; a real estate deposit of \$2.5 million; and merger costs incurred of approximately \$0.8 million. These uses were partially offset by cash added as a result of our acquisition of the five 2006 Target REITs on April 30, 2006 of \$13.8 million, and proceeds from the sale of properties of \$103.7 million.

Financing Activities

Our cash used for financing activities of \$59.1 million for the nine months ended September 30, 2006 is primarily attributable to distributions to stockholders of \$59.0 million and offering costs associated with the use of a shelf filing of \$0.1 million.

Line of Credit

We have a revolving line of credit agreement (the "Loan Agreement") with a group of banks providing for borrowings at the Company's election of up to \$150,000,000. Borrowings under the Loan Agreement bear interest at either the bank's prime rate (8.25% at September 30, 2006) or a rate equal to LIBOR plus 125 basis points (6.57% at September 30, 2006). There was no balance outstanding at September 30, 2006 or at December 31, 2005. As of September 30, 2006, we were in compliance with all bank covenants required by the Loan Agreement.

Contingencies

We are subject to various legal proceedings and claims that arise in the ordinary course of its business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not have a material adverse effect on our financial position or results of operations.

Assets Held for Syndication

As of September 30, 2006 and as of December 31, 2005 there were no assets held for syndication.

28

Related Party Transactions

During the nine months ended September 30, 2006, we completed the syndication of FSP Phoenix Tower Corp (or "Phoenix Tower"). In September 2006 the Company purchased 48 preferred shares or 4.57% of the outstanding preferred shares of Phoenix Tower for \$4,116,000. On April 30, 2006, the Company acquired the five 2006 Target REITs by merging them with and into five of the Company's wholly-owned subsidiaries. The merger was effective April 30, 2006 and, as a result, the Company issued 10,971,697 shares in a tax-free exchange for all outstanding preferred shares of the 2006 Target REITs. Previously, the Company

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

held a preferred stock investment in Blue Lagoon, which was one of the 2006 Target REITs acquired by merger on April 30, 2006, and accordingly was eliminated when recording the merger. We did not enter into any other significant transactions with related parties during the nine months ended September 30, 2006. For a discussion of transactions between us and related parties during 2005, see Footnote No. 5 "Related Party Transactions" to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Other Considerations

We generally pay the ordinary annual operating expenses of our properties from the rental revenue generated by the properties. For the three and nine months ended September 30, 2006 and 2005, the rental income exceeded the expenses for each individual property, with the exception of a property located in Westford, Massachusetts, a property located in Santa Clara, California that was sold on May 31, 2006 and a property located in Folsom, California that was sold on July 13, 2005. The property located in Westford, Massachusetts had a single tenant lease, which expired on October 31, 2004. We have not re-let this property and expect that it will not produce revenue to cover its expenses in the fourth quarter of 2006. The Westford, Massachusetts property had operating expenses of approximately \$35,000 and \$58,000 for the three months ended September 30, 2006 and 2005 and \$170,000 for the nine months ended September 30, 2006. During the nine months ended September 30, 2005, the Company received a restoration and settlement payment from a tenant at the property located in Westford, Massachusetts of \$84,000, and for the nine months ended September 30, 2005, the property had operating expenses, net of the restoration and settlement payment of approximately \$131,000. The property located in Santa Clara, California had been vacant since October 2005 and had operating expenses of \$70,000 for the five month period ending through May 31, 2006 on which date the property was sold. The property located in Folsom, California, which was sold on July 13, 2005, had been vacant since June 2003 and had operating expenses of approximately \$12,000 and \$100,000 for the period of July 1, 2005 through July 13, 2005 and the year-to date period ended July 13, 2005, respectively.

29

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We were not a party to any derivative financial instruments at or during the nine months ended September 30, 2006.

We borrow from time-to-time on our line of credit. These borrowings bear interest at the bank's base rate (8.25% at September 30, 2006) or at LIBOR plus 125 basis points (6.57% at September 30, 2006), as elected by us when requesting funds. As of September 30, 2006, no amount was outstanding under the line of credit. We have used funds drawn on our line of credit for the purpose of making interim mortgage loans to Sponsored REITs and for interim financing of acquisitions. Generally interim mortgage loans bear interest at the same variable rate payable by us under our line of credit. We therefore believe that we have mitigated our interest rate risk with respect to our borrowings for interim mortgage loans. Historically we have satisfied obligations arising from interim financing of acquisitions through cash or sale of properties in our portfolio, so we believe that we can mitigate interest rate risk with respect to borrowings for interim financing of acquisitions as well.

30

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

Item 4. Controls and Procedures.

Our management, with the participation of FSP Corp.'s President and Chief Executive Officer and FSP Corp.'s Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2006. Based on this evaluation, FSP Corp.'s President and Chief Executive Officer and FSP Corp.'s Chief Financial Officer concluded that, as of September 30, 2006, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to FSP Corp.'s President and Chief Executive Officer and FSP Corp.'s Chief Financial Officer by others within these entities as appropriate to allow timely decisions regarding required disclosure, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

31

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are subject to legal proceedings and claims that arise in the ordinary course of our business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not have a material adverse effect on our financial position, cash flows or results of operations.

Item 1A. Risk Factors

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Quarterly Report on Form 10-Q and presented elsewhere by management from time to time. The following risk factors contain no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

If we are not able to collect sufficient rents from each of our owned real properties, we may suffer significant operating losses or a reduction in cash available for future dividends.

A substantial portion of our revenues are generated by the rental income of our real properties. If our properties do not provide us with a steady rental income, our revenues will decrease and may cause us to incur operating losses in the future.

We may not be able to find properties that meet our criteria for purchase.

Growth in our investment banking/investment services business and our portfolio of real estate is dependent on the ability of our acquisition executives to find properties for sale and/or development which meet our investment criteria. To the extent they fail to find such properties, we will be

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

unable to syndicate offerings of Sponsored REITs to investors, and this segment of our business could have lower revenue, which would reduce the cash available for distribution to our stockholders, and we would be unable to increase the size of our portfolio of real estate.

If we are unable to fully syndicate a Sponsored REIT, we may be required to keep a balance outstanding on our line of credit or use our cash balance to repay our line of credit, which may reduce cash available for distribution to our stockholders.

We typically draw on our line of credit to make an interim mortgage loan to a Sponsored REIT, so that it can acquire real property prior to the consummation of the offering of its equity interests; this interim loan is secured by a first mortgage against the real property acquired by the Sponsored REIT. Once the offering has been completed, the Sponsored REIT repays the loan out of the offering proceeds. If we are unable to fully syndicate a Sponsored REIT, the Sponsored REIT could be unable to fully repay the loan, and we would have to satisfy our obligation under our line of credit through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders.

A default under our line of credit could have a material adverse effect on the cash available for distribution to our stockholders and would limit our growth.

We typically draw on our line of credit to make an interim mortgage loan to a Sponsored REIT, so that the Sponsored REIT can acquire real property prior to the consummation of the offering of such Sponsored REIT's equity interests. Once the offering has been completed, the Sponsored REIT repays the loan out of the offering proceeds. We also may use the line of credit to purchase properties directly for our real estate portfolio. A default under our line of credit could result in difficulty financing growth in both the investment banking/investment services and real estate segments of our business. It could also result in a reduction in the cash available for distribution to our stockholders because revenue for our investment banking/investment services segment is directly related to the amount of equity raised by Sponsored REITs which we syndicate. In addition, a significant part of our growth strategy is to acquire additional real properties by cash purchase or by acquisition of Sponsored REITs, and the inability to utilize the line of credit would make it substantially more difficult to pursue acquisitions by either method. To the extent we have a balance outstanding on the line of credit on the date of its default, we would have to satisfy our obligation through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders.

32

We face risks in continuing to attract investors for Sponsored REITs.

Our investment banking/investment services business continues to depend upon its ability to attract purchasers of equity interests in Sponsored REITs. Our success in this area will depend on the propensity and ability of investors who have previously invested in Sponsored REITs to continue to invest in future Sponsored REITs and on our ability to expand the investor pool for the Sponsored REITs by identifying new potential investors. Moreover, our investment banking/investment services business may be affected to the extent existing Sponsored REITs incur losses or have operating results that fail to meet investors' expectations.

We are dependent on key personnel.

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

We depend on the efforts of George Carter, our President and Chief Executive Officer, and a Director; Barbara J. Fournier, our Chief Operating Officer, Treasurer, Secretary, a Vice President and a Director; John G. Demeritt, our Chief Financial Officer; Janet Notopoulos, a Vice President and Director; R. Scott MacPhee, an Executive Vice President; and William W. Gribbell, an Executive Vice President. If any of our executive officers were to resign, our operations could be adversely affected. We do not have employment agreements with Mr. Carter or any other of our executive officers.

Our level of dividends may fluctuate.

Because our investment banking/investment services business is transactional in nature and real estate occupancy levels and rental rates can fluctuate, there is no predictable recurring level of revenue from such activities. As a result of this, the amount of cash available for distribution may fluctuate, which may result in our not being able to maintain or grow distribution levels in the future.

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

As of September 30, 2006, we owned 31 properties. Some or all of these properties may decline in value. To the extent our real properties decline in value, our stockholders could lose some or all the value of their investments. The value of our common stock may be adversely affected if the real properties held by us decline in value since these real properties represent the majority of the tangible assets held by us. Moreover, if we are forced to sell or lease the real property held by us below its initial purchase price or its carrying costs or if we are forced to lease real property at below market rates because of the condition of the property, our results of operations would be adversely affected and such negative results of operations may result in lower dividends being paid to holders of our common stock.

New acquisitions may fail to perform as expected.

We may acquire new properties, whether by direct FSP Corp. purchase with cash or our line of credit, by acquisition of Sponsored REITs or other entities by cash or through the issuance of shares of our stock or by investment in a Sponsored REIT. We acquired the four 2005 Target REITs and the properties they own on April 30, 2005, a property in Colorado in February 2005, another property in Indiana in July 2005 and another property in Texas, in February 2006. We also acquired the five 2006 Target REITs and the properties they own on April 30, 2006 and an office property in Georgia in June 2006. Newly acquired properties may fail to perform as expected, in which case, our results of operations could be adversely affected.

We face risks in owning, developing and operating real property.

An investment in us is subject to the risks incident to the ownership, development and operation of real estate-related assets. These risks include the fact that real estate investments are generally illiquid, which may affect our ability to vary our portfolio in response to changes in economic and other conditions, as well as the risks normally associated with:

- o changes in general and local economic conditions;
- o the supply or demand for particular types of properties in particular markets;
- o changes in market rental rates;
- o the impact of environmental protection laws; and

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

o changes in tax, real estate and zoning laws.

Certain significant costs, such as real estate taxes, utilities, insurance and maintenance costs, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

33

We face risks from tenant defaults or bankruptcies.

If any of our tenants defaults on its lease, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. In addition, at any time, a tenant of one of our properties may seek the protection of bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in cash available for distribution to our stockholders.

We may encounter significant delays in reletting vacant space, resulting in losses of income.

When leases expire, we will incur expenses and may not be able to re-lease the space on the same terms. Certain leases provide tenants the right to terminate early if they pay a fee. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce distributions to our stockholders. For example, our standard lease term is five years, so approximately 20% of our rental revenue from commercial properties could be expected to expire each year.

We face risks from geographic concentration.

The properties in our portfolio as of September 30, 2006, by aggregate square footage, are distributed geographically as follows: Southwest - 26%, Northeast - 17%, Midwest - 18%, West - 19% and Southeast 20%. However, within certain of those regions, we hold a larger concentration of our properties in Dallas, Texas - 18%, Atlanta, Georgia - 10% and Houston, Texas - 8%. We are likely to face risks to the extent that any of these areas in which we hold a larger concentration of our properties suffer deteriorating economic conditions.

We compete with national, regional and local real estate operators and developers, which could adversely affect our cash flow.

Competition exists in every market in which our properties are currently located and in every market in which properties we may acquire in the future will be located. We compete with, among others, national, regional and numerous local real estate operators and developers. Such competition may adversely affect the percentage of leased space and the rental revenues of our properties, which could adversely affect our cash flow from operations and our ability to make expected distributions to our stockholders. Some of our competitors may have more resources than we do or other competitive advantages. Competition may be accelerated by any increase in availability of funds for investment in real estate. For example, decreases in interest rates tend to increase the availability of funds and therefore can increase competition. To the extent that our properties continue to operate profitably, this will likely stimulate new development of competing properties. The extent to which we are affected by competition will depend in significant part on local market conditions.

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

There is limited potential for an increase in leased space gains in our properties.

We anticipate that future increases in revenue from our properties will be primarily the result of scheduled rental rate increases or rental rate increases as leases expire. Properties with higher rates of vacancy are generally located in soft economic markets so that it may be difficult to realize increases in revenue when vacant space is re-leased.

We are subject to possible liability relating to environmental matters, and we cannot assure you that we have identified all possible liabilities.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on or in its property. Such laws may impose liability without regard to whether the owner or operator knew of, or caused, the release of such hazardous substances. The presence of hazardous substances on a property may adversely affect the owner's ability to sell such property or to borrow using such property as collateral, and it may cause the owner of the property to incur substantial remediation costs. In addition to claims for cleanup costs, the presence of hazardous substances on a property could result in the owner incurring substantial liabilities as a result of a claim by a private party for personal injury or a claim by an adjacent property owner for property damage.

34

In addition, we cannot assure you that:

- o future laws, ordinances or regulations will not impose any material environmental liability;
- o the current environmental conditions of our properties will not be affected by the condition of properties in the vicinity of such properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us;
- o tenants will not violate their leases by introducing hazardous or toxic substances into our properties that could expose us to liability under federal or state environmental laws; or
- o environmental conditions, such as the growth of bacteria and toxic mold in heating and ventilation systems or on walls, will not occur at our properties and pose a threat to human health.

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

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

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as

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

they may be adopted by governmental agencies and bodies and become applicable to our properties. Compliance with such requirements may require us to make substantial capital expenditures, which expenditures would reduce cash otherwise available for distribution to our stockholders.

We may lose capital investment or anticipated profits if an uninsured event occurs.

We carry, or our tenants carry, comprehensive liability, fire and extended coverage with respect to each of our properties, with policy specification and insured limits customarily carried for similar properties. There are, however, certain types of losses, such as from wars, pollution or earthquakes, that may be either uninsurable or not economically insurable (although most properties located in California have earthquake insurance). Should an uninsured material loss occur, we could lose both capital invested in the property and anticipated profits.

Contingent or unknown liabilities acquired in mergers or similar transactions could require us to make substantial payments.

The properties which we acquired in mergers were acquired subject to liabilities and without any recourse with respect to liabilities, whether known or unknown. As a result, if liabilities were asserted against us based upon any of these properties, we might have to pay substantial sums to settle them, which could adversely affect our results of operations and financial condition and our cash flow and ability to make distributions to our stockholders. Unknown liabilities with respect to properties acquired might include:

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

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

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

If in any taxable year we do not qualify as a real estate investment trust, we would be taxed as a corporation and distributions to our stockholders would not be deductible by us in computing our taxable income. In addition, if we were to fail to qualify as a real estate investment trust, we could be disqualified from treatment as a real estate investment trust in the year in which such failure occurred and for the next four taxable years and,

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

consequently, we would be taxed as a regular corporation during such years. Failure to qualify for even one taxable year could result in a significant reduction of our cash available for distribution to our stockholders or could require us to incur indebtedness or liquidate investments in order to generate sufficient funds to pay the resulting federal income tax liabilities.

Provisions in our organizational documents may prevent changes in control.

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

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

Staggered Board. Our board of directors is divided into three classes. The terms of these classes will expire in 2007, 2008 and 2009, respectively. Directors of each class are elected for a three-year term upon the expiration of the initial term of each class. The staggered terms for directors may affect our stockholders' ability to effect a change in control even if a change in control were in the stockholders' best interests.

Preferred Stock. Our Articles of Incorporation authorize our board of directors to issue up to 20,000,000 shares of preferred stock, par value \$.0001 per share, and to establish the preferences and rights of any such shares issued. The issuance of preferred stock could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

Increase of Authorized Stock. Our board of directors, without any vote or consent of the stockholders, may increase the number of authorized shares of any class or series of stock or the aggregate number of authorized shares we have authority to issue. The ability to increase the number of authorized shares and issue such shares could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

Amendment of Bylaws. Our board of directors has the sole power to amend our Bylaws. This power could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interests.

Stockholder Meetings. Our Bylaws require advance notice for stockholder proposals to be considered at annual meetings of stockholders and for stockholder nominations for election of directors at special meetings of stockholders. Our Bylaws also provide that stockholders entitled to cast more than 50% of all the votes entitled to be cast at a meeting must join in a request by stockholders to call a special meeting of stockholders. These provisions could have the effect of delaying or preventing a change in control even if a change in control were in the best interests of our stockholders.

Supermajority Votes Required. Our Articles of Incorporation require the affirmative vote of the holders of no less than 80% of the shares of capital

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

stock outstanding and entitled to vote in order (i) to amend the provisions of our Articles of Incorporation relating to the classification of directors, removal of directors, limitation of liability of officers and directors or indemnification of officers and directors or (ii) to amend our Articles of Incorporation to impose cumulative voting in the election of directors. These provisions could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

Our employee retention plan may prevent changes in control.

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

36

The price of our common stock may vary.

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

37

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

The following table provides information about purchases by Franklin Street Properties Corp. during the quarter ended September 30, 2006 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a)		(b)	(c)	
	Total Number of Shares (or Units) Purchased (1) (2)		Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (1) (2)	
07/01/06-07/31/06	0		N/A	0	

08/01/06-08/31/06	0	N/A	0
09/01/06-09/30/06	0	N/A	0
Total:	0	N/A	0

(1) Our Articles of Incorporation provide that we will use our best efforts to redeem shares from stockholders who request such redemption. Any FSP Corp. stockholder wishing to have shares redeemed must make a request no later than July 1 of any year for a redemption that would be effective the following October 1. This obligation is subject to significant conditions. However, as our common stock is currently listed on the New York American Stock Exchange, we are no longer obligated to, and do not intend to, effect any such redemptions.

(2) On October 28, 2005 FSP Corp. announced that the Board of Directors of FSP Corp. had authorized a program of up to \$35 million of the Company's common stock from time to time in the open market or in private transactions. The stock repurchase program expires at the earlier of (i) November 1, 2007 or (ii) the date the Board of Directors of FSP Corp. to discontinue repurchases.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submissions of Matters to a Vote of Security Holders

None.

Item 5. Other Information

- (a) Set forth as Exhibit 99.2 hereto are Selected Combining Condensed Consolidated Pro Forma Financial Data of the Company that give effect to the acquisition of One Overton Park and the acquisition of the 2006 Target REITs.

38

PART II - OTHER INFORMATION (Continued)

Item 6. Exhibits

- 2.1 Agreement and Plan of Merger by and among the Company, Blue Lagoon Acquisition Corp., Innsbrook Acquisition Corp., Willow Bend Acquisition Corp., 380 Interlocken Acquisition Corp., Eldridge Green Acquisition Corp., FSP Blue Lagoon Drive Corp., FSP Innsbrook Corp., FSP Willow Bend Office Center Corp., FSP 380 Interlocken Corp. and FSP Eldridge Green Corp., dated as of March 15, 2006 (1)
- 2.2 Agreement of Sale and Purchase, dated May 19, 2006, by and between One Overton Park LLC and FSP One Overton Park LLC (2)
- 3.1 Articles of Incorporation (3)
- 3.2 Amended and Restated By-Laws (4)
- 31.1 Certification of the President and Chief Executive Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

2002.

- 31.2 Certification of the Chief Financial Officer of the Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the President and Chief Executive Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Table regarding investors in Sponsored REITs.
- 99.2 Selected Combining Condensed Consolidated Pro Forma Financial Data

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

40

SIGNATURES

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

Franklin Street Properties Corp.

Date	Signature	Title
----	-----	-----
Date: October 31, 2006	/s/ George J. Carter ----- George J. Carter	Chief Executive Officer and Director (Principal Executive Officer)
Date: October 31, 2006	/s/ John G. Demeritt ----- John G. Demeritt	Chief Financial Officer (Principal Financial Officer)

