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FRANKLIN STREET PROPERTIES CORP /MA/
Form 8-K
November 18, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT Pursuant
to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported) November 18, 2004

Franklin Street Properties Corp.
(formerly known as Franklin Street Partners Limited Partnership)

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

000-32615

04-3578653

(Commission File Number)

(IRS Employer Identification No.)

401 Edgewater Place, Suite 200, Wakefield, MA

01880-6210

(Address of Principal Executive Offices)

(Zip Code)

(781) 557-1300

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

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On August 13, 2004, Franklin Street Properties Corp. ("FSP Corp."), a Maryland corporation, four wholly-owned acquisition subsidiaries of FSP Corp., each a Delaware corporation (the "Acquisition Subs"), and four real estate investment trusts, each a Delaware corporation (the "Target REITs"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), providing for (i) FSP Corp.'s acquisition of each of the Target REITs by merging each Target REIT into a related Acquisition Sub, resulting in the Acquisition Sub being the surviving corporation and (ii) the issuance of approximately 10,894,994 shares of FSP Corp. Common Stock as consideration in connection with the mergers. Upon consummation of the mergers, the holders of the preferred stock of the preferred stock of the Target REITs will become stockholders of FSP Corp.

Pursuant to the requirements of Regulation S-X, this Current Report on Form 8-K includes a Statement of Revenues over Certain Operating Expenses for FSP Addison Circle Corp., FSP Collins Crossing Corp., FSP Montague Business Center Corp., and FSP Royal Ridge Corp. for the nine months ended September 30, 2004 (unaudited) and for the three years year ended December 31, 2003, as well as pro forma financial information for FSP Corp. and an acquisition completed by us in June 2003. Because changes will likely occur in occupancy, rents and expenses experienced by the Target REITs and because the merger may not be completed, the historical financial statements and pro forma financial data presented should not be considered as a projection of future results.

In connection with the mergers, the Registrant is hereby filing as exhibits to this Current Report on Form 8-K the financial statements and pro forma financial statements set forth below under Item 9.01.

Upon consummation of the mergers, the Registrant expects to file a Current Report under Item 2.01 of Form 8-K, "Completion of Acquisition or Disposition of Assets," reporting the information required to be set forth therein.

FORWARD LOOKING STATEMENTS

THIS FORM 8-K CONTAINS FORWARD LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND THE FEDERAL SECURITIES LAWS. THESE FORWARD LOOKING STATEMENTS ARE BASED UPON FSP CORP.'S CURRENT BELIEFS AND EXPECTATIONS, BUT THEY ARE NOT GUARANTEED. FOR EXAMPLE, THE REVENUE IN EXCESS OF OPERATING EXPENSES MAY BE LESS THAN CURRENTLY EXPECTED DUE TO CHANGING MARKET CONDITIONS, INCREASED EXPENSES OR FOR OTHER REASONS. ALSO, VARIOUS CLOSING CONDITIONS UNDER THE MERGER AGREEMENTS MAY NOT BE SATISFIED AND THE ACQUISITION MAY NOT BE COMPLETED. INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE UPON FORWARD LOOKING STATEMENTS.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements

Addison Circle

Index to financial statements as of September 30, 2004 (unaudited)	F-2
Index to financial statements as of December 31, 2003	F-8
Index to statements of revenue over certain operating expenses for the period January 1, 2002 to September 29, 2002 and for the year ended December 31, 2001	F-24

Collins Crossing

Index to financial statements as of September 30, 2004

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(unaudited)	F-29
Index to financial statements as of December 31, 2003	F-35
Index to statements of revenue over certain operating expenses for the period January 1, 2003 to March 2, 2003 and for the years ended December 31, 2002 and 2001	F-51
Montague Business Center	
Index to financial statements as of September 30, 2004 (unaudited)	F-56
Index to financial statements as of December 31, 2003	F-62
Index to statements of revenue over certain operating expenses for the period January 1, 2002 to August 26, 2002 and for the year ended December 31, 2001	F-77
Royal Ridge	
Index to financial statements as of September 30, 2004 (unaudited)	F-82
Index to financial statements as of December 31, 2003	F-88
Index to statements of revenue over certain operating expenses for the period January 1, 2003 to January 29, 2003 and for the year ended December 31, 2002	F-104
(b) Pro Forma Financial Information	
Franklin Street Properties Corp. Unaudited Pro Forma Condensed Combined Financial Statements	F-109
(c) Exhibits	
23.1 Consent of Braver and Company, P.C.	

FSP Addison Circle Corp.
Financial Statements
September 30, 2004

Table of Contents	Page
Financial Statements	
Balance Sheets as of September 30, 2004 and December 31, 2003.....	F-3
Statements of Income for the three and nine months ended September 30, 2004 and 2003.....	F-4
Statements of Cash Flows for the nine months ended September 30, 2004 and 2003.....	F-5
Notes to Financial Statements.....	F-6

FSP Addison Circle Corp.
Balance Sheets
(unaudited)

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(in thousands, except shares and par value amounts)	September 30, 2004	December 31, 2003
Assets:		
Real estate investments, at cost:		
Land	\$ 4,365	\$ 4,365
Buildings and improvements	46,112	45,812
	-----	-----
	50,477	50,200
Less accumulated depreciation	2,406	1,500
	-----	-----
Real estate investments, net	48,071	48,700
Acquired real estate leases, net of accumulated amortization of \$588 and \$349	1,150	1,300
Cash and cash equivalents	5,492	5,900
Restricted cash	20	
Tenant rents receivable	1	
Step rent receivable	531	400
Deferred leasing costs, net of accumulated amortization of \$10 and \$0	358	
Prepaid expenses and other assets	99	
	-----	-----
Total assets	\$ 55,722	\$ 56,600
Liabilities and stockholders' equity:		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,694	\$ 2,000
Dividends payable	--	1,200
Tenant security deposits	20	
	-----	-----
Total liabilities	1,714	3,300
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 636 shares authorized, issued and outstanding	--	
Common stock, \$.01 par value, 1 share authorized, issued and outstanding	--	
Additional paid-in capital	58,383	58,300
Retained deficit and dividends in excess of earnings	(4,375)	(5,000)
	-----	-----
Total stockholders' equity	54,008	53,300
	-----	-----
Total liabilities and stockholders' equity	\$ 55,722	\$ 56,600

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See accompanying notes to financial statements.

F-3

FSP Addison Circle Corp.
Statement of Income
(unaudited)

(in thousands, except shares and per share amounts)	For the Three Months Ended September 30,		For Nine En Septem
	2004	2003	2004
Revenues:			
Rental	\$2,171	\$2,115	\$6,892
Expenses:			
Rental operating expenses	684	487	1,490
Real estate taxes and insurance	361	300	1,045
Depreciation and amortization	378	381	1,136
Total expenses	1,423	1,168	3,671
Income before interest	748	947	3,221
Interest income	25	10	67
Net income attributable to preferred stockholders	\$ 773	\$ 957	\$3,288
Weighted average number of preferred shares outstanding, basic and diluted	636	636	636
Net income per preferred share, basic and diluted	\$1,215	\$1,505	\$5,170

See accompanying notes to financial statements.

F-4

FSP Addison Circle Corp.
Statements of Cash Flows

For the Nine Months End

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(in thousands)

September 30, 2004

September

=====		
Cash flows from operating activities:		
Net Income		\$ 3,288
Adjustments to reconcile net income to net cash provided by		
(used for) operating activities:		
Depreciation and amortization		1,136
Changes in operating assets and liabilities:		
Restricted cash		15
Tenant rent receivables		24
Step rent receivable		(110)
Prepaid expenses and other assets		(48)
Accounts payable and accrued expenses		(361)
Tenant security deposits		(15)
Payment of deferred leasing costs		(329)

Net cash provided by operating activities		\$ 3,600

Cash flows from investing activities:		
Purchase of real estate assets		(217)

Net cash used for investing activities		(217)

Cash flows from financing activities:		
Distributions to stockholders		(3,857)

Net cash used for financing activities		(3,857)

Net (decrease) increase in cash and cash equivalents		(474)
Cash and cash equivalents, beginning of period		5,966

Cash and cash equivalents, end of period		\$ 5,492
=====		
Supplemental disclosure of cash flow information:		
Disclosure of non-cash financing activities:		
Dividends declared but not paid		\$ --

See accompanying notes to financial statements.

F-5

FSP Addison Circle Corp.
Notes to Financial Statements
(unaudited)

1. Organization and Basis of Presentation

FSP Addison Circle Corp. (the "Company") was organized on August 21, 2002 as a Corporation under the laws of the State of Delaware to purchase, own and operate

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a commercial office building located in Addison, TX (the "Property"). The Property consists of a recently constructed, ten-story Class "A" suburban office tower that contains approximately 293,787 square feet of space situated on approximately 3.62 acres of land. The Company acquired the Property on September 30, 2002.

BASIS OF PRESENTATION

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.

Certain balances in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

These financial statements should be read in conjunction with the Company's financial statements and notes thereto for its fiscal year ended December 31, 2003.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. Net Income Per Share

Basic net income per preferred share is computed by dividing net income attributed to preferred shareholders by the weighted average number of preferred shares outstanding during the period. Diluted net income per preferred share reflects the potential dilution that could occur if securities or other contracts to issue shares were convertible into shares. There were no potential dilutive shares outstanding at September 30, 2004 and 2003. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

3. Income Taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject to certain state and local taxes on its income and property.

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FSP Addison Circle Corp.
Notes to Financial Statements
(unaudited)

4. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were \$20,000 and \$19,000 for the three months ended September 30, 2004 and 2003, respectively and \$61,000 and \$60,000 for the nine months ended September 30, 2004 and 2003, respectively.

5. Subsequent Events

On October 1, 2004 the Company declared a dividend of \$2,144.00 per share of preferred stock payable to holders of record as of October 1, 2004.

F-7

FSP Addison Circle Corp.
Financial Statements
December 31, 2003 and 2002

Table of Contents

	Page

Financial Statements	
Independent Auditor's Report.....	F-9
Balance Sheets as of December 31, 2003 and 2002.....	F-10
Statements of Operations for the year ended December 31, 2003 and for the period August 21, 2002 (date of inception) to December 31, 2002.....	F-11
Statements of Changes in Stockholders' Equity for the year ended December 31, 2003 and for the period August 21, 2002 (date of inception) to December 31, 2002.....	F-12
Statements of Cash Flows for the year ended December 31, 2003 and for the period August 21, 2002 (date of inception) to December 31, 2002.....	F-13
Notes to the Financial Statements.....	F-14

F-8

[LETTERHEAD OF BRAVER AND COMPANY, P.C.]

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Addison Circle Corp.

We have audited the accompanying balance sheets of FSP Addison Circle Corp. as of December 31, 2003 and 2002 and the related statements of operations, changes

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in stockholders' equity and cash flows for the year ended December 31, 2003 and for the period from August 21, 2002 (date of inception) to December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSP Addison Circle Corp. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the year ended December 31, 2003 and for the initial period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ Braver and Company, P.C.
 Newton, Massachusetts
 January 23, 2004

F-9

FSP Addison Circle Corp. Balance Sheets

(in thousands, except shares and par value amounts)	December 31, 2003	December 31, 2002
<hr/>		
Assets:		
Real estate investments, at cost:		
Land	\$ 4,365	\$ 4,365
Buildings and improvements	45,895	45,870
	<hr/>	<hr/>
	50,260	50,235
Less accumulated depreciation	1,519	343
	<hr/>	<hr/>
Real estate investments, net	48,741	49,892
Acquired real estate leases, net of accumulated amortization of \$349 and \$27	1,389	1,711
Cash and cash equivalents	3,330	2,683
Cash-funded reserves	2,636	2,719
Restricted cash	35	44
Tenant rents receivable	25	--
Step rent receivable	421	99

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Deferred leasing costs	39	--
Prepaid expenses and other assets	51	80

Total assets	\$ 56,667	\$ 57,228
=====		
Liabilities and stockholders' Equity:		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,055	\$ 1,890
Dividends payable	1,265	850
Tenant security deposits	35	44

Total liabilities	3,355	2,784

Commitments and contingencies:		
Stockholders' equity:		
Preferred stock, \$.01 par value, 636 shares authorized, issued and outstanding	--	--
Common stock, \$.01 par value, 1 share authorized, issued and outstanding	--	--
Additional paid-in capital	58,383	58,383
Retained deficit and dividends in excess of earnings	(5,071)	(3,939)

Total stockholders' equity	53,312	54,444

Total liabilities and stockholders' equity	\$ 56,667	\$ 57,228
=====		

See accompanying notes to financial statements.

F-10

FSP Addison Circle Corp.
Statements of Operations

		For the
		August 2
	For the Year Ended	(date of inc
(in thousands, except per share amounts)	December 31, 2003	December
=====		
Revenue:		
Rental	\$8,554	\$

Expenses:		
Rental operating expenses	1,783	
Real estate taxes and insurance	1,354	
Depreciation and amortization	1,497	
Interest	--	

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Total expenses	4,634	
Income (loss) before interest income	3,920	
Interest income	85	
Net income (loss) before common dividends	4,005	
Distributions paid to common shareholders	--	
Net income (loss) attributable to preferred shareholders	\$4,005	\$
Weighted average number of preferred shares outstanding, basic and diluted	636	
Net income (loss) per preferred share, basic and diluted	\$6,297	\$

See accompanying notes to financial statements.

F-11

FSP Addison Circle Corp.
 Statements of Changes in Stockholders' Equity
 For the year ended December 31, 2003 and for the Period August 21, 2002
 (date of inception) to December 31, 2002

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Deficit and Dividends in Excess of Earnings	\$
Private offering of 636 shares, net	\$ --	\$ --	\$58,383	\$ --	
Net loss	--	--	--	(2,869)	
Distributions to stockholders	--	--	--	(1,070)	
Balance, December 31, 2002	--	--	58,383	(3,939)	
Net income	--	--	--	4,005	
Distributions to stockholders	--	--	--	(5,137)	
Balance, December 31, 2003	\$ --	\$ --	\$58,383	\$ (5,071)	

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See accompanying notes to financial statements.

F-12

FSP Addison Circle Corp.
Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 2003	For the August 2 (date of inc December
=====		
Cash flows from operating activities:		
Net income (loss)	\$ 4,005	\$ (
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,497	
Changes in operating assets and liabilities:		
Cash-funded reserve	83	(
Restricted cash	9	
Tenant rent receivables	(25)	
Step rent receivable	(322)	
Prepaid expenses and other assets	29	
Accounts payable and accrued expenses	165	
Tenant security deposits	(9)	
Payment of deferred leasing costs	(39)	

Net cash provided by (used for) operating activities	5,393	(

Cash flows from investing activities:		
Purchase of real estate assets	(25)	(5
Purchase of acquired real estate leases	--	(

Net cash used for investing activities	(25)	(5

Cash flows from financing activities:		
Proceeds from sale of company stock	--	6
Syndication costs	--	(
Distributions to stockholders	(4,721)	
Proceeds from long-term debt	--	5
Principal payments on long-term debt	--	(5

Net cash (used for) provided by financing activities	(4,721)	5

Net increase in cash and cash equivalents	647	
Cash and cash equivalents, beginning of period	2,683	

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Cash and cash equivalents, end of period	\$ 3,330	\$
--	----------	----

Supplemental disclosure of cash flow information:

Cash paid for:		
Interest	\$ --	\$
Disclosure of non-cash financing activities:		
Dividends declared but not paid	\$ 1,265	\$

See accompanying notes to financial statements.

F-13

FSP Addison Circle Corp. Notes to Financial Statements

1. Organization

FSP Addison Circle Corp. (the "Company") was organized on August 21, 2002 as a Corporation under the laws of the State of Delaware to purchase, own and operate a commercial office building located in Addison, TX (the "Property"). The Property consists of a recently constructed, ten-story Class "A" suburban office tower that contains approximately 293,787 square feet of space situated on approximately 3.62 acres of land. The Company acquired the Property on September 30, 2002.

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The results of operations from inception to December 31, 2002 are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

REAL ESTATE AND DEPRECIATION

Real estate assets are stated at the lower of cost or fair value, as appropriate, less accumulated depreciation.

Costs related to property acquisition and improvements are capitalized. Typical capital items include new roofs, site improvements, various exterior building improvements and major interior renovations. Funding for capital improvements typically is provided by cash set aside at the time the Property was purchased.

Routine replacements and ordinary maintenance and repairs that do not extend the life of the assets are expensed as incurred. Typical expense items include

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interior painting, landscaping and minor carpet replacements. Funding for repairs and maintenance items typically is provided by cash flows from operating activities.

Depreciation is computed using the straight-line method over the assets' estimated useful lives as follows:

Category -----	Years -----
Building - Commercial	39
Building Improvements	15-39
Furniture and equipment	5-7

F-14

FSP Addison Circle Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

The following schedule reconciles the cost of the Property as shown in the Offering Memorandum as to the amounts shown on the Company's Balance Sheets:

(in thousands)

Price per Offering Memorandum	\$ 51,500
Plus: Acquisition fees	318
Other acquisition costs	155
Total Acquisition Costs	\$ 51,973

These costs are reported in the Company's Balance Sheets as follows:

Land	\$ 4,365
Building	45,870
Acquired real estate leases	1,738
Total reported on Balance Sheets	\$ 51,973

The Company evaluates its assets used in operations by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its fair value based on discounting its estimated future cash flows. At December 31, 2003 and 2002, no such indicators of impairment were identified.

ACQUIRED REAL ESTATE LEASES

Acquired real estate leases are the estimated value of legal and leasing costs related to acquired leases that were included in the purchase price when the Company acquired the Property. Under SFAS No. 141 "Business Combinations" ("SFAS 141"), which was approved by the Financial Accounting Standards Board ("FASB") in June 2001, the Company is required to segregate these costs from its investment in real estate. The Company subsequently amortizes these costs on a

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straight-line basis over the remaining life of the related leases. Amortization expense of \$322,000 and \$27,000 is included in depreciation and amortization in the Company's Statements of Operations for the year ended December 31, 2003 and the period ended December 31, 2002, respectively.

Acquired real estate lease costs included in the purchase price of the property were \$1,738,000 and are being amortized over the weighted-average period of six years in respect of the leases assumed.

The estimated annual amortization expense for the five years succeeding December 31, 2003 are as follows:

(in thousands)	
2004	\$ 321
2005	\$ 321
2006	\$ 321
2007	\$ 321
2008	\$ 105

F-15

FSP Addison Circle Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

CASH-FUNDED RESERVES

The Company has set aside funds in anticipation of future capital needs of the Property. These funds typically are used for the payment of real estate assets and deferred leasing commissions; however, there is no legal restriction on their use and they may be used for any Company purpose.

RESTRICTED CASH

Restricted cash consists of tenant security deposits.

MARKETABLE SECURITIES

The Company accounts for investments in debt securities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company typically classifies its debt securities as available-for-sale.

There were no investments in marketable securities at December 31, 2003 and 2002.

CONCENTRATION OF CREDIT RISKS

Cash, cash equivalents and short-term investments are financial instruments that potentially subject the Company to a concentration of credit risk. The Company maintains its cash balances and short-term investments principally in one bank which the Company believes to be creditworthy. The Company periodically assesses the financial condition of the bank and believes that the risk of loss is minimal. Cash balances held with various financial institutions frequently

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exceed the insurance limit of \$100,000 provided by the Federal Deposit Insurance Corporation.

For the periods ended December 31, 2003 and 2002, rental income was derived from various tenants. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

The following tenants represent greater than 10% of total revenue:

	Year Ended December 31,	Period Ended December, 31
	2003	2002
McLeod USA Telecommunications Services, Inc.	31%	31%
The Staubach Company	28%	28%
J.D. Edwards World Solutions Company	20%	20%

FINANCIAL INSTRUMENTS

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

F-16

FSP Addison Circle Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

STEP RENT RECEIVABLE

Certain leases provide for fixed increases over the life of the lease. Rental revenue is recognized on the straight-line basis over the related lease term; however, billings by the Company are based on required minimum rentals in accordance with the lease agreements. Step rent receivable, which is the cumulative revenue recognized in excess of amounts billed by the Company, was \$421,000 and \$99,000 at December 31, 2003 and 2002, respectively.

TENANT RENTS RECEIVABLE

Tenant rents receivable are reported at the amount the Company expects to collect on balances outstanding at year-end. Management monitors outstanding balances and tenant relationships and concluded that any realization losses would be immaterial.

SYNDICATION FEES

Syndication fees are selling commissions and other costs associated with the initial offering of the Company's preferred shares. Such costs, in the amount of \$5,227,000 have been reported as a reduction in Stockholders' Equity in the Company's Balance Sheets.

REVENUE RECOGNITION

The Company has retained substantially all of the risks and benefits of ownership of the Company's commercial property and accounts for its leases as operating leases. Rental income from leases, which may include rent concession (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis.

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The Company does not have any percentage rent arrangements with its commercial property tenants. Reimbursable costs are included in rental income in the period earned. A schedule showing the components of rental revenue is shown below.

(in thousands)	Year Ended December 31, 2003	Period Ended December, 31 2002
Income from leases	\$ 7,153	\$ 1,823
Straight-line rent adjustment	322	99
Reimbursable expenses	1,079	180

Total	\$ 8,554	\$ 2,102
=====		

INTEREST INCOME

Interest income is recognized when the related services are performed and the earnings process is complete.

INCOME TAXES

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

F-17

FSP Addison Circle Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

NET INCOME PER SHARE

The Company follows Statement of Financial Accounting Standards No. 128 "Earnings per Share", which specifies the computation, presentation and disclosure requirements for the Company's net income per share. Basic net income per preferred share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per preferred share reflects the potential dilution that could occur if securities or other contracts to issue shares were convertible into shares. There were no potential dilutive shares outstanding at December 31, 2003 and 2002. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

3. Recent Accounting Standards

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". This statement was effective January 1, 2003. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather

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than at the date of a commitment to an exit or disposal plan. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

4. Income Taxes

The Company files as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject to certain state and local taxes on its income and property.

For the period ended December 31, 2002, the Company incurred a net operating loss for income tax purposes of approximately \$2,932,000 that can be carried forward until it expires in the year 2022.

At December 31, 2003, the Company's net tax basis of its real estate assets was \$50,421,000.

The following schedule reconciles net income (loss) to taxable income subject to dividend requirements:

(in thousands)	Year Ended December 31, 2003	Period Ended December 31, 2002
GAAP net income (loss)	\$ 4,005	\$ (2,869)
Add: Book depreciation and amortization	1,497	370
Less: Tax depreciation and amortization	(1,193)	(323)
Straight-line rents	(322)	(99)
Taxable income (loss) (1)	\$ 3,987	\$ (2,921)

(1) A tax loss is not subject to a dividend requirement.

The following schedule reconciles cash dividends paid to the dividends paid deduction:

(in thousands, except per share data)	Total	Year Ended December 31, 2003 Per Preferred Share Per Common Share		Total	Year December Per Pre Sha
Cash distributions paid	\$ 4,721	\$ 7,278	\$ 93,807	\$ 220	\$
Less: Return of captial	(734)	(1,133)	(14,605)	(220)	
Dividends paid deduction	\$ 3,987	\$ 6,145	\$ 79,202	\$ --	\$

F-18

FSP Addison Circle Corp.
Notes to Financial Statements

5. Capital Stock

PREFERRED STOCK

Generally, each holder of Shares of Preferred Stock is entitled to receive ratably all dividends, if any, declared by the Board of Directors out of funds legally available. The right to receive dividends shall be non-cumulative, and no right to dividends shall accrue by reason of the fact that no dividend has been declared in any prior year. Each holder of Shares will be entitled to receive, to the extent that funds are available therefore, \$100,000 per Share, before any payment to the holder of Common Stock, out of distributions to stockholders upon liquidation, dissolution or the winding up of the Company; the balance of any such funds available for distribution will be distributed among the holders of Shares and the holder of Common Stock, pro rata based on the number of shares held by each; provided, however, that for these purposes, one share of Common Stock will be deemed to equal one-tenth of a share of Preferred Stock.

In addition to certain voting rights provided in the corporate agreements, the holder of Shares, acting by consent of at least 51%, shall have the further right to approve or disapprove a proposed sale of the Property, the merger of the Company with any other entity and amendments to the corporate charter. A vote of the holders of 66.67% of the Shares is required for the issue of any additional shares of capital stock. Holders of Shares have no redemption or conversion rights.

COMMON STOCK

Franklin Street Properties Corp. ("FSP"), is the sole holder of the Company's Common Stock. FSP has the right, as one class together with the holders of Preferred Stock, to vote to elect the directors of the Company and to vote on all matters except those voted by the holders of Shares of Preferred Stock. Subsequent to the completion of the offering of the preferred shares the holders of common shares are not entitled to share in any income, nor in any related dividend.

6. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. For the period ended December 31, 2003 and 2002, fees incurred under the agreement were \$79,000 and \$19,000, respectively.

An acquisition fee of \$318,000 and other costs of \$67,000 were paid in 2002 to an affiliate of the Common Shareholder. Such fees were included in the cost of the real estate.

Syndication fees of \$5,227,000 were paid in 2002 to an affiliate of the Common Shareholder for services related to syndication of the Company's preferred stock.

During 2002, the Company borrowed and repaid in full a note payable to FSP, principal of \$51,500,000, with interest equal to the Citizens Bank base rate. Interest paid to FSP was \$240,000. The average interest rate during the time the

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loan was outstanding was 4.44%.

A commitment fee of \$3,657,000 was paid to FSP for obtaining the first mortgage loan. Such amount is included in interest expense on the Statement of Operations.

The Company paid a distribution of \$313,000 to the common shareholder relating to operating activities of the Company prior to the completion of the offering of preferred shares.

F-20

FSP Addison Circle Corp.
Notes to Financial Statements

7. Commitments and Contingencies

The Company, as lessor, has minimum future rentals due under non-cancelable operating leases as follows:

(in thousands)	Year Ending December 31,	Amount
	-----	-----
	2004	\$ 6,684
	2005	6,636
	2006	5,698
	2007	3,101
	2008	2,369
	Thereafter	943

		\$ 25,431
		=====

In addition, the lessees are liable for real estate taxes and certain operating expenses of the Property.

Upon acquiring the commercial rental property in September, 2002, the Company was assigned the lease agreements between the seller of the Property and the existing tenants. The original lease periods range from five to ten years with renewal options.

F-21

SCHEDULE III

ADDISON CIRCLE
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003

	Initial Cost

Buildings	Costs Capitalized (Disposals)

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ADDISON CIRCLE
FOR THE PERIOD JANUARY 1, 2002 TO SEPTEMBER 29, 2002
AND FOR THE YEAR ENDED DECEMBER 31, 2001

CONTENTS

	PAGE
Independent auditors' report	F-25
Statements of revenue over certain operating expenses	F-26
Notes accompanying the statements of revenue over certain operating expenses	F-27

F-24

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Addison Circle Corp.

We have audited the accompanying statements of revenue over certain operating expenses (the "Statements") of Addison Circle for the period January 1, 2002 to September 29, 2002 and for the year ended December 31, 2001. These Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statements' presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Statements were prepared to comply with the requirements of Rule 3-14 of Regulation S-X of the Securities and Exchange Commission, and exclude certain expenses described in Note 2, and therefore, are not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, these Statements referred to above present fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2), of Addison Circle for the period January 1, 2002 to September 29, 2002 and for the year ended December 31, 2001, in conformity with the basis of accounting described in Note 2.

/s/ Braver and Company, P.C.
Newton, Massachusetts
February 28, 2004

F-25

ADDISON CIRCLE

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STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES FOR THE PERIOD JANUARY 1, 2002 TO SEPTEMBER 29, 2002 AND FOR THE YEAR ENDED DECEMBER 31, 2001

	2002	2001
	-----	-----
REVENUE		
Rental income	\$6,577,352	\$8,353,790
	-----	-----
CERTAIN OPERATING EXPENSES (Note 2):		
Taxes and insurance	930,968	1,195,547
Management fees	105,094	135,923
Administrative	512,993	446,024
Operating and maintenance	649,685	905,373
	-----	-----
	2,198,740	2,682,867
	-----	-----
Excess of revenue over certain operating expenses	\$4,378,612	\$5,670,923
	=====	=====

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

F-26

ADDISON CIRCLE NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Addison, Dallas County, Texas (the "Property"). These statements are the results of operations of the Property under the basis of accounting described in Note 2 for the period and year described prior to the acquisition of the Property by FSP Addison Circle Corp. The Property consists of a ten-story Class A suburban office tower containing approximately 293,787 square feet located on approximately 3.62 acres of land. The Property was sold to FSP Addison Circle Corp. on September 30, 2002.

2. BASIS OF ACCOUNTING:

The accompanying Statements have been prepared on the accrual basis of accounting. The Statements have been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, these Statements exclude certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, interest, corporate expenses and certain other costs not directly related to the future operations of the Property.

3. REVENUE RECOGNITION:

Rental revenue includes income from leases, certain reimbursable expenses, straight-line rent adjustments and other income associated with renting

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the property. A summary of rental revenue is shown in the following table:

	For the period January 1, 2002 to September 29, 2002	Year Ended December 31, 2001
	-----	-----
Income from leases	\$ 5,407,615	\$7,168,574
Straight-line rent adjustment	258,696	293,420
Reimbursable expenses	909,682	887,543
Other income	1,359	4,253
	-----	-----
Total	\$ 6,577,352	\$8,353,790
	=====	=====

Addison Circle has retained substantially all of the risks and benefits of the property and accounts for its leases as operating leases. Rental income from leases, which include rent concessions (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its tenants. Reimbursable costs are included in rental income in the period earned.

4. USE OF ESTIMATES:

The preparation of the Statements in conformity with the basis of accounting described in Note 2 requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F-27

ADDISON CIRCLE
NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

5. CONCENTRATIONS OF RISKS:

For the period January 1, 2002 to September 29, 2002, and for the year ended December 31, 2001, rental income was received from various lessees. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

6. LEASES:

The Company, as lessor, has minimum future rentals due under noncancellable operating leases as follows:

Year Ending December 31,	Amount
-----	-----
2002	\$ 1,704,000
2003	6,677,000
2004	6,684,000
2005	6,636,000
2006	5,698,000
Thereafter	6,413,000

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 \$ 33,812,000
 =====

In addition, the lessees are liable for real estate taxes and operating expenses as direct expenses to them.

F-28

FSP Collins Crossing Corp.
 Financial Statements
 September 30, 2004

Table of Contents

	Page

Financial Statements	
Balance Sheet as of September 30, 2004 and December 31, 2003.....	F-30
Statement of Income for the three and nine months ended September 30, 2004 and 2003.....	F-31
Statement of Cash Flows for the nine months ended September 30, 2004 and 2003.....	F-32
Notes to Financial Statements.....	F-33

F-29

FSP Collins Crossing Corp.
 Balance Sheet
 (unaudited)

(in thousands, except shares and par value amounts)	September 30, 2004	D
=====		
Assets:		
Real estate investments, at cost:		
Land	\$ 4,022	
Buildings and improvements	34,232	

	38,254	
Less accumulated depreciation	1,389	

Real estate investments, net	36,865	
Acquired real estate leases, net of accumulated amortization of \$663 and \$349, respectively	1,604	
Acquired favorable real estate lease, net of accumulated		

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amortization of \$1,504 and \$791, respectively	3,640
Cash and cash equivalents	4,634
Restricted cash	115
Tenant rents receivable	35
Step rent receivable	528
Prepaid expenses and other assets	51

Total assets \$ 47,472

Liabilities and stockholders' equity:

Liabilities:

Accounts payable and accrued expenses	\$ 1,263
Distributions payable	--
Tenant security deposits	115

Total liabilities 1,378

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.01 par value, 555 shares authorized, issued and outstanding	--
Common stock, \$.01 par value, 1 share authorized, issued and outstanding	--
Additional paid-in capital	51,100
Retained deficit and dividends in excess of earnings	(5,006)

Total stockholders' equity 46,094

Total liabilities and stockholders' equity \$ 47,472

See accompanying notes to financial statements.

F-30

FSP Collins Crossing Corp.
Statement of Income
(unaudited)

(in thousands, except shares and per share amounts)	For the Three Months Ended September 30,		For Nine End Septem
	2004	2003	2004

Revenues:

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Rental	\$1,756	\$1,724	\$5,205

Expenses:			
Rental operating expenses	552	418	1,461
Real estate taxes and insurance	237	273	715
Depreciation and amortization	324	265	972
Interest	--	4	--
=====			
Total expenses	1,113	960	3,148

Income (loss) before interest income	643	764	2,057
Interest income	12	7	51

Net income (loss) before common distributions	655	771	2,108
Distributions paid to common stockholders	--	217	--

Net income (loss) attributable to preferred stockholders	\$ 655	\$ 554	\$2,108
=====			
Weighted average number of preferred shares outstanding, basic and diluted	555	555	555
=====			
Net income (loss) per preferred share, basic and diluted	\$1,180	\$ 998	\$3,798
=====			

See accompanying notes to financial statements

F-31

FSP Collins Crossing Corp.
Statements of Cash Flows

(in thousands) For the Nine Months
September 30, 2004 September 30, 2003

Cash flows from operating activities:	
Net Income (loss)	\$ 2,108
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	972
Amortization of favorable lease	713
Changes in operating assets and liabilities:	
Restricted cash	--
Tenant rent receivables	(10)
Step rent receivable	(249)
Prepaid expenses and other assets	(8)
Accounts payable and accrued expenses	(204)

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Tenant security deposits	--

Net cash provided by (used for) operating activities	3,322

Cash flows from investing activities:	
Purchase of real estate assets	(8)
Purchase of acquired real estate leases	--
Purchase of acquired favorable real estate lease	--

Net cash used for investing activities	(8)

Cash flows from financing activities:	
Proceeds from sale of company stock	--
Syndication costs	--
Distributions to stockholders	(3,746)
Proceeds from long-term debt	--
Principal payments on long-term debt	--

Net cash (used for) provided by financing activities	(3,746)

Net increase (decrease) in cash and cash equivalents	(432)
Cash and cash equivalents, beginning of period	5,066

Cash and cash equivalents, end of period	\$ 4,634
=====	
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	\$ --
Disclosure of non-cash financing activities:	
Dividends declared but not paid	\$ --

See accompanying notes to financial statements.

F-32

FSP Collins Crossing Corp.
Notes to Financial Statements
(unaudited)

1. Organization and Basis of Presentation

FSP Collins Crossing Corp. (the "Company") was organized on January 16, 2003 as a Corporation under the laws of the State of Delaware to purchase, own and operate a commercial office building located in Richardson, TX (the "Property"). Completed in 1999, the Property consists of an eleven story Class "A" suburban office tower that contains approximately 298,766 square feet of space situated on approximately ten acres of land (including an undeveloped parcel containing approximately 3.5 acres). The company acquired the Property on March 3, 2003.

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BASIS OF PRESENTATION

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.

Certain prior-year balances have been reclassified in order to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company's financial statements and notes thereto for its fiscal year ended December 31, 2003

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. Net Income Per Share

Basic net income per preferred share is computed by dividing net income attributed to preferred shareholders by the weighted average number of preferred shares outstanding during the period. Diluted net income per preferred share reflects the potential dilution that could occur if securities or other contracts to issue shares were convertible into shares. There were no potential dilutive shares outstanding at September 30, 2004 and 2003. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

3. Income Taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject to certain state and local taxes on its income and property.

F-33

FSP Collins Crossing Corp.
Notes to Financial Statements
(unaudited)

4. Related Party Transactions

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The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were \$19,000 and \$19,000 for the three months ended September 30, 2004 and 2003, respectively and \$56,000 and \$44,000 for the nine months ended September 30, 2004 and 2003, respectively.

An acquisition fee of \$277,000 and other costs of \$206,000 were paid in the nine months ended September 30, 2003 to an affiliate of the common shareholder. Such fees were included in the cost of real estate.

Syndication fees of \$4,410,000 were paid in the nine months ended September 30, 2003 to an affiliate of the common shareholder for services related to syndication of the Company's preferred stock.

During the nine months ended September 30, 2003, the Company borrowed and repaid in full a note payable to FSP, principal of \$45,175,000 with interest equal to the Citizens Bank base rate. Interest paid to FSP was \$253,000. The average interest rate during the time the loan was outstanding was 4.44%.

A commitment fee of \$3,191,000 was paid to FSP during the nine months ended September 30, 2003 for obtaining the first mortgage loan. Such amount is included in interest expense on the Statement of Operations.

The Company paid a distribution of \$370,000 during the nine months ended September 30, 2003 to the common shareholder relating to operating activities of the Company prior to the completion of the offering of preferred shares.

5. Subsequent Events

On October 1, 2004, the Company declared a dividend of \$2,120.00 per share of preferred stock payable to holders of record as of October 1, 2004.

F-34

FSP Collins Crossing Corp.
Financial Statements
December 31, 2003

Table of Contents

	Page

Financial Statements	
Independent Auditor's Report.....	F-36
Balance Sheet as of December 31, 2003.....	F-37
Statement of Operations for the period January 16, 2003 (date of inception) to December 31, 2003.....	F-38
Statement of Changes in Stockholders' Equity for the period January 16, 2003 (date of inception) to December 31, 2003.....	F-39
Statement of Cash Flows for the period January 16, 2003 (date of inception) to December 31, 2003.....	F-40
Notes to the Financial Statements.....	F-41

F-35

[LETTERHEAD OF BRAVER AND COMPANY, P.C.]

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Collins Crossing Corp.

We have audited the accompanying balance sheet of FSP Collins Crossing Corp. as of December 31, 2003, and the related statements of operations, changes in stockholders' equity and cash flows for the period from January 16, 2003 (date of inception) to December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSP Collins Crossing Corp. as of December 31, 2003, and the results of its operations and its cash flows for the initial period then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Braver and Company, P.C.
Newton, Massachusetts
January 23, 2004

F-36

FSP Collins Crossing Corp.
Balance Sheet

	December 31, 2003
(in thousands, except shares and par value amounts)	
=====	
Assets:	
Real estate investments, at cost:	
Land	\$ 4,022
Buildings and improvements	34,224

	38,246
Less accumulated depreciation	731

Real estate investments, net	37,515

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Acquired real estate leases, net of accumulated amortization of \$349	1,918
Acquired favorable real estate lease, net of accumulated amortization of \$791	4,353
Cash and cash equivalents	2,942
Cash-funded reserves	2,124
Restricted cash	115
Tenant rents receivable	25
Step rent receivable	279
Prepaid expenses and other assets	43

Total assets \$ 49,314

Liabilities and stockholders' equity:

Liabilities:

Accounts payable and accrued expenses	\$ 1,467
Distributions payable to stockholders	1,331
Tenant security deposits	115

Total liabilities 2,913

Commitments and contingencies:

Stockholders' equity:

Preferred Stock, \$.01 par value, 555 shares authorized, issued and outstanding	--
Common Stock, \$.01 par value, 1 share authorized, issued and outstanding	--
Additional paid-in capital	51,100
Retained deficit and distributions in excess of earnings	(4,699)

Total stockholders' equity 46,401

Total liabilities and stockholders' equity \$ 49,314

See accompanying notes to financial statements.

F-37

FSP Collins Crossing Corp.
Statement of Operations

For the Period
January 16, 2003
(date of inception) to
December 31, 2003

(in thousands, except shares and per share amounts)

Revenue:	
Rental	\$ 5,672

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Total revenue	5,672

Expenses:	
Rental operating expenses	1,399
Real estate taxes and insurance	760
Depreciation and amortization	1,080
Interest	3,444

Total expenses	6,683

Net loss before interest income	(1,011)
Interest income	35

Net loss before distributions to common stockholder	(976)
Distributions paid to common stockholder	373

Net loss attributable to preferred stockholders	\$(1,349)
=====	
Weighted average number of preferred shares outstanding, basic and diluted	555
=====	
Net loss per preferred share, basic and diluted	\$(2,431)
=====	

See accompanying notes to financial statements.

F-38

FSP Collins Crossing Corp.
Statement of Changes in Stockholders' Equity
For the Period January 16, 2003
(date of inception) to December 31, 2003

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Deficit and Dividends in Excess of Earnings
=====				
Private offering of 555 shares, net	\$ --	\$ --	\$ 51,100	\$ --
Distributions	--	--	--	(3,723)
Net loss	--	--	--	(976)

Balance, December 31, 2003	\$ --	\$ --	\$ 51,100	\$ (4,699)

See accompanying notes to financial statements.

F-39

FSP Collins Crossing Corp.
Statement of Cash Flows

For the Period
January 16, 2003
(date of inception) to
December 31, 2003

(in thousands)

=====	
Cash flows from operating activities:	
Net loss	\$ (976)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	1,080
Amortization of favorable lease	791
Changes in operating assets and liabilities:	
Cash-funded reserve	(2,124)
Restricted cash	(115)
Tenant rents receivable	(25)
Step rent receivable	(279)
Prepaid expenses and other assets	(43)
Accounts payable and accrued expenses	1,467
Tenant security deposits	115

Net cash used for operating activities	(109)

Cash flows from investing activities:	
Purchase of real estate assets	(38,246)
Purchase of acquired real estate lease	(2,267)
Purchase of acquired favorable real estate lease	(5,144)

Net cash used for investing activities	(45,657)

Cash flows from financing activities:	
Proceeds from sale of company stock	55,510
Syndication costs	(4,410)
Distributions to stockholders	(2,392)
Proceeds from long-term debt	45,175
Principal payments on long-term debt	(45,175)

Net cash provided by financing activities	48,708

Net increase in cash and cash equivalents	2,942
Cash and cash equivalents, beginning of period	--

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Cash and cash equivalents, end of period	\$ 2,942
--	----------

=====

Supplemental disclosure of cash flow information:

Cash paid for:	
Interest	\$ 3,444

Disclosure of non-cash financing activities:	
Distributions declared but not paid	\$ 1,331

See accompanying notes to financial statements.

F-40

FSP Collins Crossing Corp. Notes to Financial Statements

1. Organization

FSP Collins Crossing Corp. (the "Company") was organized on January 16, 2003 as a Corporation under the laws of the State of Delaware to purchase, own and operate a commercial office building located in Richardson, TX (the "Property"). Completed in 1999, the Property consists of an eleven story Class "A" suburban office tower that contains approximately 298,766 square feet of space situated on approximately ten acres of land (including an undeveloped parcel containing approximately 3.5 acres). The company acquired the Property on March 3, 2003.

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The results of operations from inception to date are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

REAL ESTATE AND DEPRECIATION

Real estate assets are stated at the lower of cost or fair value, as appropriate, less accumulated depreciation.

Costs related to property acquisition and improvements are capitalized. Typical capital items include new roofs, site improvements, various exterior building improvements and major interior renovations. Funding for capital improvements typically is provided by cash set aside at the time the Property was purchased.

Routine replacements and ordinary maintenance and repairs that do not extend the life of the assets are expensed as incurred. Typical expense items include interior painting, landscaping and minor carpet replacements. Funding for

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repairs and maintenance items typically is provided by cash flows from operating activities.

Depreciation is computed using the straight-line method over the assets' estimated useful lives as follows:

Category -----	Years -----
Building - Commercial	39
Building Improvements	15-39
Furniture and Equipment	5-7

F-41

FSP Collins Crossing Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

The following schedule reconciles the cost of the property as shown in the Offering Memorandum as to the amounts shown on the Company's Balance Sheet:

(in thousands)

Price per Offering Memorandum	\$	45,175
Plus: Acquisition fees		277
Plus: Other acquisition costs		205
Total Acquisition Costs	\$	45,657

These costs are reported in the Company's Balance Sheet as follows:

Land	\$	4,022
Building		34,224
Acquired real estate leases		2,267
Acquired favorable real estate lease		5,144
Total reported on Balance Sheet	\$	45,657

The Company evaluates its assets used in operations by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its fair value based on discounting its estimated future cash flows. At December 31, 2003, no such indicators of impairment were identified.

ACQUIRED REAL ESTATE LEASES

Acquired real estate leases represents the estimated value of legal and leasing costs related to acquired leases that were included in the purchase price when the Company acquired the Property. Under SFAS No. 141 "Business Combinations" ("SFAS 141"), which was approved by the Financial Accounting Standards Board

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("FASB") in June 2001, the Company is required to segregate these costs from its investment in real estate. The Company subsequently amortizes these costs on a straight-line basis over the weighted-average remaining life of the related leases. Amortization expense of \$349,000 is included in Depreciation and Amortization in the Company's Statement of Operations for the period ended December 31, 2003.

Acquired real estate lease costs included in the purchase price of the property were \$2,267,000 and are being amortized over the period of five years in respect of the leases assumed. Detail of the acquired real estate lease costs as of December 31, 2003:

(in thousands)	

Cost	\$ 2,267
Accumulated amortization	349

Book value	\$ 1,918
=====	

The estimated annual amortization expense for the five years succeeding December 31, 2003 are as follows:

(in thousands)	

2004	\$ 418
2005	\$ 418
2006	\$ 418
2007	\$ 418
2008	\$ 244

F-42

FSP Collins Crossing Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

ACQUIRED FAVORABLE REAL ESTATE LEASE

Acquired favorable real estate lease is the estimated benefit the Company receives when the lease payments due under a tenant's lease exceed the market rate of the lease at the date the property was acquired. Under SFAS 141 the Company is required to report this value separately from its investment in real estate. The Company subsequently amortizes this amount on a straight-line basis over the remaining life of the tenant's lease. Amortization of \$791,000 is shown as a reduction of rental income in the Company's Statement of Operations for the period ended December 31, 2003.

The acquired favorable real estate leases included in the purchase price of the property was \$5,144,000 and is being amortized over the period of five years in respect of the lease assumed. Details of the acquired favorable real estate lease as of December 31, 2003:

(in thousands)	

Cost	\$ 5,144
Accumulated amortization	791

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Book value	----- \$ 4,353 =====
------------	----------------------------

The estimated annual amortization expense for the five years succeeding December 31, 2003 are as follows:

(in thousands)	

2004	\$ 950
2005	\$ 950
2005	\$ 950
2007	\$ 950
2008	\$ 553

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

CASH-FUNDED RESERVES

The Company has set aside funds in anticipation of future capital needs of the Property. Although these funds typically are used for the payment of real estate assets and deferred leasing commissions, there is no legal restriction on their use and they may be used for any Company purpose.

RESTRICTED CASH

Restricted cash consists of tenant security deposits.

MARKETABLE SECURITIES

The Company accounts for investments in debt securities under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company typically classifies its debt securities as available-for-sale.

There were no investments in marketable securities at December 31, 2003.

F-43

FSP Collins Crossing Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

CONCENTRATION OF CREDIT RISKS

Cash, cash equivalents and short-term investments are financial instruments that potentially subject the Company to a concentration of credit risk. The Company maintains its cash balances and short-term investments principally in one bank which the Company believes to be creditworthy. The Company periodically assesses the financial condition of the bank and believes that the risk of loss is minimal. Cash balances held with various financial institutions frequently exceed the insurance limit of \$100,000 provided by the Federal Deposit Insurance Corporation.

For the period ended December 31, 2003 rental income was derived from various tenants. As such, future receipts are dependent upon the financial strength of

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the lessees and their ability to perform under the lease agreements.

The following tenant represents greater than 10% of total revenue:

INET	80%
------	-----

FINANCIAL INSTRUMENTS

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

STEP RENT RECEIVABLE

Certain leases provide for fixed increases over the life of the lease. Rental revenue is recognized on the straight-line basis over the related lease term; however, billings by the Company are based on required minimum rentals in accordance with the lease agreements. Step rent receivable, which is the cumulative revenue recognized in excess of amounts billed by the Company, is \$279,000 at December 31, 2003.

TENANT RENTS RECEIVABLE

Tenant rents receivable are reported at the amount the Company expects to collect on balances outstanding at year-end. Management monitors outstanding balances and tenant relationships and concluded that any realization losses would be immaterial.

SYNDICATION FEES

Syndication fees are selling commissions and other costs associated with the initial offering of the Company's preferred shares. Such costs, in the amount of \$4,410,000 have been reported as reduction in Stockholders' Equity in the Company's Balance Sheet.

F-44

FSP Collins Crossing Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REVENUE RECOGNITION

The Company has retained substantially all of the risks and benefits of ownership of the Company's commercial properties and accounts for its leases as operating leases. Rental income from leases, which may include rent concession (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its commercial property tenants. Reimbursable costs are included in rental income in the period earned. A schedule showing the components of rental revenue is shown below.

	Period Ended December, 31
(in thousands)	2003
Income from leases	\$ 5,559
Straight-line rent adjustment	279
Reimbursable expenses	625

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Amortization of favorable lease	(791)

Total	\$ 5,672
=====	

INTEREST INCOME

Interest income is recognized when the related services are performed and the earnings process is complete.

INCOME TAXES

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

NET INCOME PER SHARE

The Company follows Statement of Financial Accounting Standards No. 128 "Earnings per Share", which specifies the computation, presentation and disclosure requirements for the Company's net income per share. Basic net income per share is computed by dividing net income by the weighted average number of 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 convertible into shares. There were no potential dilutive shares outstanding at December 31, 2003. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor any related dividend.

3. Recent Accounting Standards

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". This statement was effective January 1, 2003. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Company does not anticipate that the adoption of this statement will have a material effect on the Company's financial position, results of operations and cash flows.

F-45

FSP Collins Crossing Corp.
Notes to Financial Statements

4. Income Taxes

The Company files as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies their requirements. Even as a qualified REIT, the Company is subject

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to certain state and local taxes on its income and property.

At December 31, 2003, the Company's net tax basis of its real estate assets was \$41,634,000.

The following schedule reconciles GAAP net income to taxable income subject to dividend requirements:

(in thousands)	Period Ended December 31, 2003
=====	
GAAP net loss	\$ (976)
Add: Book depreciation and amortization	1,080
Amortization for favorable lease	791
Deferred rent	481
Less: Tax depreciation and amortization	(812)
Straight-line rents	(279)

Taxable income subject to dividend requirement	\$ 285
=====	

The following schedule reconciles cash dividends paid to the dividends paid deduction:

(in thousands, except per share data)	Total	Period Ended December 31, Per Preferred Share	Per Common Share
=====			
Cash dividends paid	\$ 2,392	\$ 3,637	\$ 370,000
Less: Return of Capital	(2,392)	3,204	326,000

Dividends paid deduction	\$ --	\$ 433	\$ 44,000
=====			

F-46

FSP Collins Crossing Corp.
Notes to Financial Statements

5. Capital Stock

PREFERRED STOCK

Generally, each holder of Shares of Preferred Stock is entitled to receive ratably all dividends, if any, declared by the Board of Directors out of funds legally available. The right to receive dividends shall be non-cumulative, and no right to dividends shall accrue by reason of the fact that no dividend has been declared in any prior year. Each holder of Shares will be entitled to receive, to the extent that funds are available therefore, \$100,000 per Share, before any payment to the holder of Common Stock, out of distributions to stockholders upon liquidation, dissolution or the winding up of the Company; the balance of any such funds available for distribution will be distributed among the holders of Shares and the holder of Common Stock, pro rata based on the number of shares held by each; provided, however, that for these purposes, one share of Common Stock will be deemed to equal one-tenth of a share of Preferred

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Stock.

In addition to certain voting rights provided in the corporate agreements, the holder of Shares, acting by consent of at least 51%, shall have the further right to approve or disapprove a proposed sale of the Property, the merger of the Company with any other entity and amendments to the corporate charter. A vote of the holders of 66.67% of the Shares is required for the issue of any additional shares of capital stock. Holders of Shares have no redemption or conversion rights.

COMMON STOCK

Franklin Street Properties Corp. ("FSP"), is the sole holder of the Company's Common Stock. FSP has the right, as one class together with the holders of Preferred Stock, to vote to elect the directors of the Company and to vote on all matters except those voted by the holders of Shares of Preferred Stock. Subsequent to the completion of the offering of the preferred shares the holders of common shares are not entitled to receive any income, nor shall the Company declare or pay any cash dividends on shares of Common Stock.

6. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. For the period ended December 31, 2003, fees incurred under the agreement were \$62,000.

An acquisition fee of \$277,000 and other costs of \$206,000 were paid in 2003 to an affiliate of the Common Shareholder. Such fees were included in the cost of the real estate.

Syndication fees of \$4,410,000 were paid in 2003 to an affiliate of the Common Shareholder for services related to syndication of the Company's preferred stock.

During 2003, the Company borrowed and repaid in full a note payable to FSP, principal of \$45,175,000 with interest equal to the Citizens Bank base rate. Interest paid to FSP was \$253,000. The average interest rate during the time the loan was outstanding was 4.44%.

A commitment fee of \$3,191,000 was paid to FSP for obtaining the first mortgage loan. Such amount is included in interest expense on the Statement of Operations.

The Company paid a distribution of \$373,000 to the common shareholder relating to operating activities of the Company prior to the completion of the offering of preferred shares.

F-47

FSP Collins Crossing Corp. Notes to Financial Statements

7. Commitments and Contingencies

The Company, as lessor, has minimum future rentals due under non-cancelable operating leases as follows:

(in thousands)	Year Ending December 31,	Amount
----------------	-----------------------------	--------

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(2) The aggregate cost for Federal Income Tax purposes is \$41,634.

F-49

Collins Crossing

The following table summarizes the changes in the Company's real estate investments and accumulated depreciation:

(in thousands)	December 31, ----- 2003 -----
Real estate investments, at cost:	
Balance, beginning of period	\$ --
Acquisitions	38,246
Improvements	--
Dispositions	--

Balance, end of period	\$38,246

Accumulated depreciation:	
Balance, beginning of period	\$ --
Depreciation	731
Dispositions	--

Balance, end of period	\$ 731

F-50

COLLINS CROSSING

FOR THE PERIOD JANUARY 1, 2003 TO MARCH 2, 2003 AND

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

CONTENTS

	PAGE
Independent auditors' report	F-52
Statements of revenue over certain operating expenses	F-53
Notes accompanying the statements of revenue over certain operating expenses	F-54

F-51

INDEPENDENT AUDITORS' REPORT

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To the Stockholders
FSP Collins Crossing Corp.

We have audited the accompanying statements of revenue over certain operating expenses (the "Statements") of Collins Crossing for the period January 1, 2003 to March 2, 2003 and for the years ended December 31, 2002 and 2001. These Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statements' presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Statements were prepared to comply with the requirements of Rule 3-14 of Regulation S-X of the Securities and Exchange Commission, and exclude certain expenses described in Note 2 and, therefore, are not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, these Statements referred to above present fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2), of Collins Crossing for the period January 1, 2003 to March 2, 2003 and for the years ended December 31, 2002 and 2001, in conformity with the basis of accounting described in Note 2.

/s/ Braver and Company, P.C.
Newton, Massachusetts
February 28, 2004

F-52

COLLINS CROSSING
Statements of Revenue Over Certain Operating Expenses
For the PERIOD JANUARY 1, 2003 TO March 2, 2003 AND
FOR THE YEARS ENDED dECEMBER 31, 2002 and 2001

	2003	2002	2001
	-----	-----	-----
REVENUE			
Rental income	\$1,347,445	\$7,719,461	\$7,231,817
	-----	-----	-----
CERTAIN OPERATING EXPENSES (Note 2):			
Taxes and insurance	156,372	906,803	1,080,465
Management fees	24,885	148,990	136,467
Administrative	18,688	64,208	59,948
Operating and maintenance	275,996	1,165,129	1,320,489
	-----	-----	-----

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	475,941	2,285,130	2,597,369
	-----	-----	-----
Excess of revenue over certain operating expenses	\$ 871,504	\$5,434,331	\$4,634,448
	=====	=====	=====

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

F-53

COLLINS CROSSING
NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Dallas County, Texas (the "Property"). These Statements are the results of operations of the Property under the basis of accounting described in Note 2 for the period and years described prior to the acquisition of the Property by FSP Collins Crossing Corp. The Property consists of an eleven-story Class "A" institutional quality suburban office tower containing approximately 298,766 square feet located on approximately 10.0 acres of land. The Property was sold to FSP Collins Crossing Corp. on March 3, 2003.

2. BASIS OF ACCOUNTING:

The accompanying Statements have been prepared on the accrual basis of accounting. The Statements have been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, these Statements exclude certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, interest, corporate expenses and certain other costs not directly related to future operations of the Property.

3. REVENUE RECOGNITION:

Rental revenue includes income from leases, certain reimbursable expenses, and straight-line rent adjustments associated with renting the property.

	For the period January 1, 2003 to March 2, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
	-----	-----	-----
Income from leases	\$1,219,096	\$6,747,319	\$6,415,650
Straight-line rent adjustment	53,506	294,140	252,620
Reimbursable expenses	74,843	678,002	563,547
	-----	-----	-----
Total	\$1,347,445	\$7,719,461	\$7,231,817
	=====	=====	=====

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Collins Crossing has retained substantially all of the risks and benefits of the Property and accounts for its leases as operating leases. Rental income from leases, which includes rent concessions (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its tenants. Reimbursable costs are included in rental income in the period earned.

USE OF ESTIMATES:

The preparation of the Statements in conformity with the basis of accounting described in Note 2 requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CONCENTRATIONS OF RISKS:

For the period January 1, 2003 to March 2, 2003 and for the years ended December 31, 2002 and 2001, rental income was from three lessees. As such, future receipts are dependent upon the financial strength of these lessees and their ability to perform under the lease agreements.

F-54

COLLINS CROSSING NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

LEASES:

The Company, as lessor, has minimum future rentals due under noncancellable operating leases as follows:

Year Ending December 31,	Amount
-----	-----
2003	\$ 5,604,000
2004	6,701,000
2005	6,947,000
2006	6,036,000
2007	5,811,000
Thereafter	14,499,000

	\$ 45,598,000
	=====

In addition, the lessees are liable for real estate taxes and operating expenses as direct expenses to them.

F-55

FSP Montague Business Center Corp.
Financial Statements
September 30, 2004

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Table of Contents

	Page
Financial Statements	----
Balance Sheets as of September 30, 2004 and December 31, 2003.....	F-57
Statements of Income for the three and nine months ended September 30, 2004 and 2003.....	F-58
Statements of Cash Flows for the nine months ended September 30, 2004 and 2003.....	F-59
Notes to Financial Statements.....	F-60

F-56

FSP Montague Business Center Corp.
Balance Sheet
(unaudited)

(in thousands, except shares and par value amounts)

Assets:

Real estate investments, at cost:

Land
Buildings and improvements

Less accumulated depreciation

Real estate investments, net

Acquired real estate leases, net of accumulated amortization of \$224 and \$143
Acquired favorable real estate lease, net accumulated amortization of \$2,616 and \$1,744
Cash and cash equivalents
Step rent receivable
Prepaid expenses and other assets

Total assets

Liabilities and Stockholders' Equity:

Liabilities:

Accounts payable and accrued expenses
Dividends payable

Total liabilities

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Commitments and Contingencies

Stockholders' Equity:

Preferred Stock, \$.01 par value, 334 shares
 authorized, issued and outstanding
 Common Stock, \$.01 par value, 1 share
 authorized, issued and outstanding
 Additional paid-in capital
 Retained deficit and dividends in excess of earnings

 Total Stockholders' Equity

=====
 Total Liabilities and Stockholders' Equity
 =====

See accompanying notes to financial statements.

F-57

FSP Montague Business Center Corp.
 Statement of Income
 (unaudited)

(in thousands, except shares and per share amounts)	For the Three Months Ended September 30,	
	2004	2003
Revenues:		
Rental	\$ 878	\$ 889
Expenses:		
Rental operating expenses	143	60
Real estate taxes and insurance	69	90
Depreciation and amortization	94	92
Total expenses	306	242
Income (loss) before interest income	572	647
Interest income	5	9
Net income before common dividends	577	656
Dividends paid to common shareholders	--	--

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Net income attributable to preferred shareholders	\$ 577	\$ 656
Weighted average number of preferred shares outstanding, basic and diluted	334	334
Net income per preferred share, basic and diluted	\$1,728	\$1,964

See accompanying notes to financial statements.

F-58

FSP Montague Business Center Corp.
Statements of Cash Flows

(in thousands) For the Nine Months
September 30, 2004

Cash flows from operating activities:		
Net Income	\$	1,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		282
Amortization of favorable leases		872
Changes in operating assets and liabilities:		
Tenant rent receivable		--
Step rent receivable		(69)
Prepaid expenses and other assets		(8)
Accounts payable and accrued expenses		54
Net cash provided by (used for) operating activities		2,992
Cash flows from investing activities:		
Purchase of real estate assets		--
Purchase of acquired real estate leases		--
Net cash used for investing activities		--
Cash flows from financing activities:		
Proceeds from sale of company stock		--
Syndication costs		--
Dividends to stockholders		(2,953)
Proceeds from long-term debt		--
Principal payments on long-term debt		--
Net cash (used for) provided by financing activities		(2,953)

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Net increase in cash and cash equivalents	39
Cash and cash equivalents, beginning of period	3,594

Cash and cash equivalents, end of period	\$ 3,633
=====	
Supplemental disclosure of cash flow information:	
Disclosure of non-cash financing activities:	
Dividends declared but not paid	\$ --

See accompanying notes to financial statements.

F-59

FSP Montague Business Center Corp.
Notes to Financial Statements
(unaudited)

1. Organization and Basis of Presentation

FSP Montague Business Center Corp. (the "Company") was organized on July 22, 2002 as a Corporation under the laws of the State of Delaware to purchase, own and operate two adjacent single-story research and development/office buildings located in San Jose, California (the "Property"). The Property contains approximately 145,951 square feet of space situated on approximately 9.95 acres of land. The company acquired the Property on August 27, 2002.

BASIS OF PRESENTATION

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.

Certain prior-year balances have been reclassified in order to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company's financial statements and notes thereto for its fiscal year ended December 31, 2003.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual

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results could differ from those estimates.

2. Net Income Per Share

Basic net income per preferred share is computed by dividing net income by the weighted average number of preferred shares outstanding during the period. Diluted net income per preferred 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, 2004. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

3. Income Taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject to certain state and local taxes on its income and property

F-60

FSP Montague Business Center Corp.
Notes to Financial Statements
(unaudited)

4. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were \$12,000 and \$11,000 for the three months ended September 30, 2004 and 2003, respectively and \$34,000 and \$34,000 for the nine months ended September 30, 2004 and 2003 respectively.

5. Subsequent Events

On October 1, 2004, the Company declared a dividend of \$3,000.00 per share of preferred stock payable to holders of record as of October 1, 2004.

F-61

FSP Montague Business Center Corp.
Financial Statements
December 31, 2003 and 2002

Table of Contents

	Page
Financial Statements	----
Independent Auditor's Report.....	F-63
Balance Sheets as of December 31, 2003 and 2002.....	F-64

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Statements of Operations for the year ended December 31, 2003 and for the period July 22, 2002 (date of inception) to December 31, 2002.....	F-65
Statements of Changes in Stockholders' Equity for the year ended December 31, 2003 and for the period July 22, 2002 (date of inception) to December 31, 2002.....	F-66
Statements of Cash Flows for the year ended December 31, 2003 and for the period July 22, 2002 (date of inception) to December 31, 2002.....	F-67
Notes to the Financial Statements.....	F-68

F-62

[LETTERHEAD OF BRAVER AND COMPANY, P.C.]

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Montague Business Center Corp.

We have audited the accompanying balance sheets of FSP Montague Business Center Corp. as of December 31, 2003, and 2002, and the related statements of operations, changes in stockholders' equity and cash flows for the year ended December 31, 2003 and for the period from July 22, 2002 (date of inception) to December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSP Montague Business Center Corp. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the year ended December 31, 2003 and for the initial period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/s/ Braver and Company, P.C.
Newton, Massachusetts
January 23, 2004

F-63

FSP Montague Business Center Corp.
Balance Sheets

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(in thousands, except shares and par value amounts)	December 31,	D
	2003	
=====		
Assets:		
Real estate investments, at cost:		
Land	\$ 10,500	\$
Buildings and improvements	10,499	

	20,999	
Less accumulated depreciation	359	

Real estate investments, net	20,640	
Acquired real estate lease, net of accumulated amortization of \$143 and \$36	322	
Acquired favorable real estate lease, net of accumulated amortization of \$1,744 and \$581	3,488	
Cash and cash equivalents	1,587	
Cash-funded reserves	2,007	
Step rent receivable	392	
Prepaid expenses and other assets	14	

Total assets	\$ 28,450	\$
=====		
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable and accrued expenses	\$ 411	\$
Distributions payable	960	

Total liabilities	1,371	

Commitments and Contingencies:		
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 334 shares authorized, issued and outstanding	--	
Common Stock, \$.01 par value, 1 share authorized, issued and outstanding	--	
Additional paid-in capital	30,652	
Retained deficit and distributions in excess of earnings	(3,573)	

Total Stockholders' Equity	27,079	

Total Liabilities and Stockholders' Equity	\$ 28,450	\$
=====		

See accompanying notes to financial statements.

F-64

FSP Montague Business Center Corp.
Statements of Operations

(in thousands, except shares and per share amounts)	For the Year Ended December 31, 2003	For th July 2 (date of i December
<hr/>		
Revenue:		
Rental	\$3,645	\$ 1
<hr/>		
Total revenue	3,645	1
<hr/>		
Expenses:		
Rental operating expenses	314	
Real estate taxes and insurance	339	
Depreciation and amortization	368	
Interest	--	1
<hr/>		
Total expenses	1,021	2
<hr/>		
Net income (loss) before interest income	2,624	(1
Interest income	45	
<hr/>		
Net income (loss) before common dividends	2,669	(1
Distributions paid to common shareholders	--	
<hr/>		
Net income (loss) attributable to preferred shareholders	\$2,669	\$ (1
<hr/>		
Weighted average number of preferred shares outstanding, basic and diluted	334	
<hr/>		
Net income (loss) per preferred share, basic and diluted	\$7,991	\$ (3
<hr/>		

See accompanying notes to financial statements.

F-65

FSP Montague Business Center Corp.

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Statements of Changes in Stockholders' Equity
 For the Year ended December 31, 2003
 and for the Period July 22, 2002
 (date of inception) to December 31, 2002

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained and Div in Exce Earn
Private offering of 334 shares, net	\$ --	\$ --	\$ 30,652	\$
Distributions to stockholders	--	--	--	(1)
Net loss	--	--	--	(1)

Balance, December 31, 2002	--	--	30,652	(2)
Distributions to stockholders	--	--	--	(3)
Net income	--	--	--	2

Balance, December 31, 2003	\$ --	\$ --	\$ 30,652	\$ (3)

See accompanying notes to financial statements.

F-66

FSP Montague Business Center Corp.
 Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 2003	For the Period July 22, 2002 (date of inception December 31, 2002
Cash flows from operating activities:		
Net income (loss)	\$ 2,669	\$ (1,249)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	368	134
Amortization of favorable lease	1,164	581
Changes in operating assets and liabilities:		
Cash-funded reserves	366	(2,373)
Step rent receivables	(262)	(130)
Prepaid expenses and other assets	11	(25)
Accounts payable and accrued expenses	383	28

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Net cash provided by (used for) operating activities	4,699	(3,034)
Cash flows from investing activities:		
Purchase of real estate assets	(355)	(20,644)
Purchase of acquired real estate leases	--	(465)
Purchase of acquired favorable real estate leases	--	(5,232)
Net cash used for investing activities	(355)	(26,341)
Cash flows from financing activities:		
Proceeds from sale of company stock	--	33,410
Syndication costs	--	(2,758)
Distributions to stockholders	(3,714)	(320)
Proceeds from long-term debt	--	26,000
Principal payments on long-term debt	--	(26,000)
Net cash (used for) provided by financing activities	(3,714)	30,332
Net increase in cash and cash equivalents	630	957
Cash and cash equivalents, beginning of period	957	--
Cash and cash equivalents, end of period	\$ 1,587	\$ 957
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ --	\$ 1,949
Disclosure of non-cash financing activities:		
Dividends declared but not paid	\$ 960	\$ 902

See accompanying notes to financial statements.

F-67

FSP Montague Business Center Corp.
Notes to Financial Statements

1. Organization

FSP Montague Business Center Corp. (the "Company") was organized on July 22, 2002 as a Corporation under the laws of the State of Delaware to purchase, own and operate two adjacent single-story research and development/office buildings located in San Jose, California (the "Property"). The Property contains approximately 145,951 square feet of space situated on approximately 9.95 acres of land. The Company acquired the Property on August 27, 2002.

2. Summary of Significant Accounting Policies

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BASIS OF PRESENTATION

The results of operations from inception to December 31, 2002 are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

REAL ESTATE AND DEPRECIATION

Real estate assets are stated at the lower of cost or fair value, as appropriate, less accumulated depreciation.

Costs related to property acquisition and improvements are capitalized. Typical capital items include new roofs, site improvements, various exterior building improvements and major interior renovations. Funding for capital improvements typically is provided by cash set aside at the time the Property was purchased.

Routine replacements and ordinary maintenance and repairs that do not extend the life of the assets are expensed as incurred. Typical expense items include interior painting, landscaping and minor carpet replacements. Funding for repairs and maintenance items typically is provided by cash flows from operating activities.

Depreciation is computed using the straight line method over the assets' estimated useful lives as follows:

Category	Years
-----	-----
Building - Commercial	39
Building Improvements	15-39
Furniture and equipment	5-7

F-68

FSP Montague Business Center Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

The following schedule reconciles the cost of the Property as shown in the Offering Memorandum as to the amounts shown on the Company's Balance Sheets:

(in thousands)

Price per Offering Memorandum	\$	26,000
Plus: Acquisition fees		167
Plus: Other acquisition costs		174

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Total Acquisition Costs	\$ 26,341
=====	

These costs are reported in the Company's Balance Sheets as follows:

Land	\$ 10,500
Building	10,144
Acquired real estate lease	465
Acquired favorable lease	5,232

Total reported on Balance Sheet	\$ 26,341
=====	

The Company evaluates its assets used in operations by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its fair value based on discounting its estimated future cash flows. At December 31, 2003 and 2002 no such indicators of impairment were identified.

ACQUIRED REAL ESTATE LEASE

Acquired real estate lease represents the estimated value of legal and leasing costs related to the acquired leases that were included in the purchase price when the Company acquired the Property. Under SFAS No. 141 "Business Combinations", which was approved by the Financial Accounting Standards Board ("FASB") in June 2001, the Company is required to segregate these costs from its investment in real estate. The Company subsequently amortizes these costs on a straight-line basis over life of the related lease. Amortization expense of approximately \$107,000 and \$36,000 is included in depreciation and amortization in the Company's Statements of Operations for the periods ended December 31, 2003 and 2002, respectively.

The acquired real estate lease included in the purchase price of the property was \$465,000 and is being amortized over a period of five years.

The estimated annual amortization expense for the three years succeeding December 31, 2003 are as follows:

(in thousands)	

2004	\$ 107
2005	\$ 107
2006	\$ 107

F-69

FSP Montague Business Center Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

ACQUIRED FAVORABLE REAL ESTATE LEASE

Acquired favorable real estate lease represents the value related to the leases when the lease payments due under a tenant's lease exceed the market rate of the

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lease at the date the Property was acquired. Under SFAS 141 the Company is required to capitalize this difference and report it separately from its investment in real estate. The Company subsequently amortizes this amount on a straight-line basis over the remaining life of the tenant's lease. Amortization of \$1,164,000 and \$581,000 is shown as a reduction of rental income in the Company's Statements of Operations for the periods ended December 31, 2003 and 2002, respectively.

The acquired favorable real estate lease included in the purchase price of the property was \$5,232,000 and is being amortized over a period of five years in respect of the lease assumed.

The estimated annual amortization expense for the three years succeeding December 31, 2003 are as follows:

(in thousands)	

2004	\$ 1,163
2005	\$ 1,163
2006	\$ 1,162

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

CASH-FUNDED RESERVES

The Company has set aside funds in anticipation of future capital needs of the Property. These funds typically are used for the payment of real estate assets and deferred leasing commissions; however, there is no legal restriction on their use and they may be used for any Company purpose.

MARKETABLE SECURITIES

The Company accounts for investments in debt securities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company typically classifies its debt securities as available-for-sale.

There were no investments in marketable securities at December 31, 2003 and 2002.

CONCENTRATION OF CREDIT RISKS

Cash, cash equivalents and short-term investments are financial instruments that potentially subject the Company to a concentration of credit risk. The Company maintains its cash balances and short-term investments principally in one bank which the Company believes to be creditworthy. The Company periodically assesses the financial condition of the bank and believes that the risk of loss is minimal. Cash balances held with various financial institutions frequently exceed the insurance limit of \$100,000 provided by the Federal Deposit Insurance Corporation.

For the periods ended December 31, 2003 and 2002, 100% of the rental income was derived from one tenant, Novellus Systems, Inc. As such, future receipts are dependent upon the financial strength of the lessee and its ability to perform under the lease agreement.

FINANCIAL INSTRUMENTS

The Company estimates that the carrying value of cash and cash equivalents and

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cash-funded reserves approximate their fair values based on their short-term maturity and prevailing interest rates.

F-70

FSP Montague Business Center Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

STEP RENT RECEIVABLE

Certain leases provide for fixed increases over the life of the lease. Rental revenue is recognized on the straight-line basis over the related lease term; however, billings by the Company are based on required minimum rentals in accordance with the lease agreements. Step rent receivable which is the cumulative revenue recognized in excess of amounts billed by the Company, was \$392,000 and \$130,000 at December 31, 2003 and 2002, respectively.

SYNDICATION FEES

Syndication fees are selling commissions and other costs associated with the initial offering of the Company's preferred shares. Such costs in the amount of \$2,758,000 have been reported as a reduction in Stockholders' Equity in the Company's Balance Sheet.

REVENUE RECOGNITION

The Company has retained substantially all of the risks and benefits of ownership of the Company's commercial property and accounts for its lease as an operating lease. Rental income from the lease, which may include rent concession (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its commercial property tenant. Reimbursable costs are included in rental income in the period earned. A schedule showing the components of rental revenue is shown below.

(in thousands)	Year Ended December, 31 2003	Period Ended December, 31 2002
Income from leases	\$ 3,789	\$ 1,269
Straight-line rent adjustment	262	130
Reimbursable expenses	758	190
Amortization of acquired favorable real estate lease	(1,164)	(581)
Total	\$ 3,645	\$ 1,008

INTEREST INCOME

Interest income is recognized when the related services are performed and the earnings process is complete.

INCOME TAXES

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code of 1986, as amended. As a REIT, the Company

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generally is entitled to a tax deduction for dividends paid to its shareholders, thereby effectively subjecting the distributed net income of the Company to taxation at the shareholder level only. The Company must comply with a variety of restrictions to maintain its status as a REIT. These restrictions include the type of income it can earn, the type of assets it can hold, the number of shareholders it can have and the concentration of their ownership, and the amount of the Company's taxable income that must be distributed annually.

NET INCOME PER SHARE

The Company follows Statement of Financial Accounting Standards No. 128 "Earnings per Share", which specifies the computation, presentation and disclosure requirements for the Company's net income per share. Basic net income per preferred share is computed by dividing net income by the weighted average number of preferred shares outstanding during the period. Diluted net income per preferred share reflects the potential dilution that could occur if securities or other contracts to issue shares were convertible into shares. There were no potential dilutive shares outstanding at December 31, 2003 and 2002. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

F-71

FSP Montague Business Center Corp. Notes to Financial Statements.

3. Recent Accounting Standards

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". This statement was effective January 1, 2003. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

4. Income Taxes

The Company files as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject to certain state and local taxes on its income and property.

For the period ended December 31, 2002, the Company incurred a net operating loss for income tax purposes of approximately \$810,000 that can be carried forward until it expires in the year 2022.

At December 31, 2003, the Company's net tax basis of its real estate assets was \$26,136,000.

The following schedule reconciles net income (loss) to taxable income subject to dividend requirements:

Year Ended	Period Ended
December 31,	December 31,

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(in thousands)	2003	2002
GAAP net income (loss)	\$ 2,669	\$ (1,249)
Add: Book depreciation and amortization	368	134
Amortization of favorable lease	1,164	581
Deferred rent	379	--
Less: Tax depreciation and amortization	(399)	(142)
Straight-line rents	(262)	(130)
Taxable income (loss)(1) subject to a dividend requirement	\$ 3,919	\$ (806)

(1) A tax loss is not subject to a dividend requirement.

The following schedule reconciles cash dividends paid to the dividends paid deduction:

(in thousands, except per share data)	Total	Year Ended December 31, 2003		Total	Year December Per Pre
		Per Preferred Share	Per Common Share		
Cash distributions paid	\$ 3,714	\$11,120	\$ --	\$ 320	\$ 288
Less: Return of captial	--	--	--	(320)	(288)
Dividends paid deduction	\$ 3,714	\$11,120	\$ --	\$ --	\$

F-72

FSP Montague Business Center Corp.
Notes to Financial Statements

5. Capital Stock

PREFERRED STOCK

Generally, each holder of Shares of Preferred Stock is entitled to receive ratably all dividends, if any, declared by the Board of Directors out of funds legally available. The right to receive dividends shall be non-cumulative, and no right to dividends shall accrue by reason of the fact that no dividend has been declared in any prior year. Each holder of Shares will be entitled to receive, to the extent that funds are available therefore, \$100,000 per Share, before any payment to the holder of Common Stock, out of distributions to stockholders upon liquidation, dissolution or the winding up of the Company; the balance of any such funds available for distribution will be distributed among the holders of Shares and the holder of Common Stock, pro rata based on the number of shares held by each; provided, however, that for these purposes, one share of Common Stock will be deemed to equal one-tenth of a share of Preferred Stock.

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In addition to certain voting rights provided in the corporate agreements, the holder of Shares, acting by consent of at least 51%, shall have the further right to approve or disapprove a proposed sale of the Property, the merger of the Company with any other entity and amendments to the corporate charter. A vote of the holders of 66.67% of the Shares is required for the issue of any additional shares of capital stock. Holders of Shares have no redemption or conversion rights.

COMMON STOCK

Franklin Street Properties Corp. ("FSP"), is the holder of the Company's Common Stock. FSP has the right, as one class together with the holders of Preferred Stock, to vote to elect the directors of the Company and to vote on all matters except those voted by the holders of Shares of Preferred Stock. Subsequent to the completion of the offering of the preferred shares the holders of common shares are not entitled to share in any earnings nor any related dividend.

6. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. For the years ended December 31, 2003 and 2002, fees incurred under the agreement were \$45,000 and \$14,000, respectively.

An acquisition fee of \$167,000 and other costs of \$104,000 were paid in 2002 to an affiliate of the Common Shareholder. Such fees were included in the cost of the real estate.

Syndication fees of \$2,758,000 were paid in 2002 to an affiliate of the Common Shareholder for services related to syndication of the Company's preferred stock.

During 2002, the Company borrowed and repaid in full a note payable to FSP, principal of \$26,000,000, with interest equal to the Citizens Bank base rate. Interest paid to FSP was \$29,000. The average interest rate during the time the loan was outstanding was 4.75%.

A commitment fee of \$1,920,000 was paid to FSP for obtaining the first mortgage loan and is included in interest expense on the Statement of Operations.

The Company paid a distribution of \$32,000 to the common shareholder relating to operating activities of the Company prior to the completion of the offering of preferred shares.

F-73

FSP Montague Business Center Corp. Notes to Financial Statements

7. Commitments and Contingencies

The Company, as lessor, has minimum future rentals due under a non-cancelable operating lease as follows:

(in thousands)	Year Ending December 31,	Amount
-----	-----	-----
	2004	\$ 3,982

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2005	4,174
2006	4,390

	\$ 12,546
	=====

In addition, the lessee is liable for real estate taxes and certain operating expenses of the Property.

F-74

SCHEDULE III

MONTAGUE BUSINESS CENTER
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003

Description	Encumbrances (1)	Land	Initial Cost	
			Buildings Improvements and Equipment	Costs Capitalized (Disposals Subsequent to Acquisition)
Montague Business Center, San Jose, CA		10,500	10,499	--

(in thousands)

Description	Historical Costs				Total Cost Net Accumulated Depreciation
	Land	Buildings Improvements and Equipment	Total (2)	Accumulated Depreciation	
Montague Business Center, San Jose, CA	10,500	10,499	20,999	359	20,640

(in thousands)

- (1) There are no encumbrances on the above properties.
(2) The aggregate cost for Federal Income Tax purposes is \$26,136.

F-75

Montague Business Center

The following table summarizes the changes in the Company's real estate investments and accumulated depreciation:

December 31,

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(in thousands)	2003	2002
Real estate investments, at cost:		
Balance, beginning of period	\$20,644	\$ --
Acquisitions	--	20,644
Improvements	355	--
Dispositions	--	--
Balance, end of period	\$20,999	\$20,644
Accumulated depreciation:		
Balance, beginning of period	\$ 98	\$ --
Depreciation	261	98
Dispositions	--	--
Balance, end of period	\$ 359	\$ 98

F-76

MONTAGUE BUSINESS CENTER
FOR THE PERIOD JANUARY 1, 2002 TO AUGUST 26, 2002
AND FOR THE YEAR ENDED DECEMBER 31, 2001

CONTENTS

	PAGE
Independent auditors' report	F-78
Statements of revenue over certain operating expenses	F-79
Notes accompanying the statements of revenue over certain operating expenses	F-80

F-77

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Montague Business Center Corp.

We have audited the accompanying statements of revenue over certain operating expenses (the "Statements") of Montague Business Center for the period January 1, 2002 to August 26, 2002 and for the year ended December 31, 2001. These Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An

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audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statements' presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Statements were prepared to comply with the requirements of Rule 3-14 of Regulation S-X of the Securities and Exchange Commission, and exclude certain expenses described in Note 2 and, therefore, are not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, these Statements referred to above present fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of Montague Business Center for the period January 1, 2002 to August 26, 2002 and for the year ended December 31, 2001, in conformity with the basis of accounting described in Note 2.

/s/ Braver and Company, P.C.
 Newton, Massachusetts
 February 28, 2004

F-78

MONTAGUE BUSINESS CENTER
 Statements of Revenue Over Certain Operating Expenses
 For the PERIOD JANUARY 1, 2002 TO aUGUST 26, 2002
 and For the year ended december 31, 2001

	2002	2001
	-----	-----
REVENUE:		
Rental income	\$ 2,772,694	\$ 3,822,325
	-----	-----
CERTAIN OPERATING EXPENSES (Note 2):		
Taxes and insurance	117,594	223,859
Management fees	44,055	81,426
Administrative	11,095	4,169
Operating and maintenance	60,751	115,926
	-----	-----
	233,495	425,380
	-----	-----
Excess of revenue over certain operating expenses	\$ 2,539,199	\$ 3,396,945
	=====	=====

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

F-79

MONTAGUE BUSINESS CENTER
 NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

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The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in San Jose, California (the "Property"). These Statements are the results of operations of the Property under the basis of accounting described in Note 2 for the period and year described prior to the acquisition of the Property by FSP Montague Business Center Corp. The Property consists of two adjacent single-story Class "A" suburban office buildings containing approximately 145,951 square feet located on approximately 9.95 acres of land. The Property was sold to FSP Montague Business Center Corp. on August 27, 2002.

2. BASIS OF ACCOUNTING:

The accompanying statements have been prepared on the accrual basis of accounting. The Statements have been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, these Statements exclude certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, interest, corporate expenses and certain other costs not directly related to future operations of the Property.

3. REVENUE RECOGNITION:

Rental revenue includes income from leases, certain reimbursable expenses, straight-line rent adjustments and other income associated with renting the property. A summary of rental revenue is shown in the following table:

	For the period January 1, 2002 to August 26, 2002	Year Ended December 31, 2001
	-----	-----
Income from leases	\$2,202,756	\$2,731,934
Straight-line rent adjustment	245,307	679,196
Reimbursable expenses	317,190	411,195
Other income	7,441	--
	-----	-----
Total	\$2,772,694	\$3,822,325
	=====	=====

Montague Business Center has retained substantially all of the risks and benefits of the Property and accounts for its leases as operating leases. Rental income from leases, which include rent concessions (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its tenants. Reimbursable costs are included in rental income in the period earned.

4. USE OF ESTIMATES:

The preparation of the Statements in conformity with the basis of accounting described in Note 2 requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

8. CONCENTRATIONS OF RISKS:

For the period January 1, 2002 to August 26, 2002, and for the year ended December 31, 2001, rental income was from various lessees. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

6. LEASES:

The Company, as lessor, has minimum future rentals due under noncancellable operating leases as follows:

Year Ending December 31, -----	Amount -----
2002	\$ 1,269,000
2003	3,789,000
2004	3,982,000
2005	4,174,000
2006	4,390,000

	\$ 17,604,000
	=====

In addition, the lessees are liable for real estate taxes and operating expenses as direct expenses to them.

F-81

FSP Royal Ridge Corp.
Financial Statements
September 30, 2004

Table of Contents

	Page ----
Financial Statements	
Balance Sheet as of September 30, 2004 and December 31, 2003.....	F-83
Statement of Income for the three and nine months ended September 30, 2004.....	F-84
Statement of Cash Flows for the nine months ended September 30, 2004 and 2003.....	F-85
Notes to Financial Statements.....	F-86

F-82

FSP Royal Ridge Corp.
Balance Sheet
(unaudited)

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(in thousands, except shares and par value amounts)

Assets:

Real estate investments, at cost:

Land
Buildings and improvements

Less accumulated depreciation

Real estate investments, net

Acquired real estate leases, net of accumulated amortization of \$260 and \$143
Acquired favorable real estate lease, net of accumulated net amortization of \$775 and \$426
Cash and cash equivalents
Restricted cash
Step rent receivable
Prepaid expenses and other assets

Total assets

Liabilities and stockholders' equity:

Liabilities:

Accounts payable and accrued expenses
Dividends payable

Total liabilities

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.01 par value, 297.5 shares
authorized, issued and outstanding
Common stock, \$.01 par value, 1 share
authorized, issued and outstanding
Additional paid-in capital
Retained deficit and dividends in excess of earnings

Total stockholders' equity

Total liabilities and stockholders' equity

See accompanying notes to financial statements.

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F-83

FSP Royal Ridge Corp.
Statement of Income
(unaudited)

(in thousands, except shares and per share amounts)	For the Three Months Ended September 30,		
	2004	2003	2004
Revenues:			
Rental	\$ 769	\$ 728	\$2,286
Expenses:			
Rental operating expenses	290	209	693
Real Estate Taxes and insurance	81	66	250
Depreciation and amortization	143	130	429
Interest	--	--	--
Total expenses	514	405	1,372
Income (loss) before interest income	255	323	914
Interest income	9	4	27
Net income (loss) before common dividends	264	327	941
Dividends paid to common shareholders	--	14	--
Net income (loss) attributable to preferred shareholders	\$ 264	\$ 313	\$ 941
Weighted average number of preferred shares outstanding, basic and diluted	297.5	297.5	297.5
Net income per preferred share, basic and diluted	\$ 887	\$1,052	\$3,163

See accompanying notes to financial statements.

F-84

FSP Royal Ridge Corp.
Statements of Cash Flows

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(unaudited)

(in thousands) For the Nine Months
September 30, 2004

=====	
Cash flows from operating activities:	
Net Income (loss)	\$ 941
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	429
Amortization of favorable lease	349
Changes in operating assets and liabilities:	
Restricted cash	--
Tenant rent receivables	--
Step rent receivable	(86)
Prepaid expenses and other assets	5
Accounts payable and accrued expenses	235

Net cash provided by (used for) operating activities	1,873

Cash flows from investing activities:	
Purchase of real estate assets	--
Purchase of acquired real estate leases	--
Purchase of acquired favorable real estate leases	--

Net cash used for investing activities	--

Cash flows from financing activities:	
Proceeds from sale of company stock	--
Syndication costs	--
Dividends to stockholders	(1,614)
Proceeds from long-term debt	--
Principal payments on long-term debt	--

Net cash (used for) provided by financing activities	(1,614)

Net increase in cash and cash equivalents	259
Cash and cash equivalents, beginning of period	2,251

Cash and cash equivalents, end of period	\$ 2,510
=====	
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	\$ --
Disclosure of non-cash financing activities:	
Dividends declared but not paid	\$ --

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See accompanying notes to financial statements.

F-85

FSP Royal Ridge Corp. Notes to Financial Statements (unaudited)

1. Organization and Basis of Presentation

FSP Royal Ridge Corp. (the "Company") was organized on December 20, 2002 as a Corporation under the laws of the State of Delaware to purchase, own and operate a six-story Class "A" suburban office building containing approximately 161,366 rental square feet of space located on approximately 13.2 acres of land in Alpharetta, GA (the "Property"). The Company acquired the Property on January 30, 2003.

BASIS OF PRESENTATION

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.

These financial statements should be read in conjunction with the Company's financial statements and notes thereto for its fiscal year ended December 31, 2003.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain balances in the 2003 financial statements have been reclassified to conform to the 2004 presentation.

2. Net Income Per Share

Basic net income per preferred share is computed by dividing net income attributed to preferred shareholders by the weighted average number of preferred shares outstanding during the period. Diluted net income per preferred share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised convertible into shares. There were no potential dilutive shares outstanding at September 30, 2004 and 2003. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

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3. Income Taxes

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject to certain state and local taxes on its income and property.

F-86

FSP Royal Ridge Corp.
Notes to Financial Statements
(unaudited)

4. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were \$9,000 and \$9,000 for the three months ended September 30, 2004 and 2003, respectively and \$26,000 and \$9,000 for the nine months ended September 30, 2004 and 2003, respectively.

An acquisition fee of \$149,000 and other costs of \$111,000 were paid in the nine months ended September 30, 2003 to an affiliate of the common shareholder. Such fees were included in the cost of the real estate.

Syndication fees of \$2,380,000 were paid in the nine months ended September 30, 2003 to an affiliate of the common shareholder for services related to syndication of the Company's preferred stock.

During the nine months ended September 30, 2003, the Company borrowed and repaid in full a note payable to FSP, principal of \$24,250,000 with interest equal to the Citizens Bank base rate. Interest paid to FSP was \$20,000. The average interest rate during the time the loan was outstanding was 4.50%.

A commitment fee of \$1,711,000 was paid to FSP during the nine months ended September 30, 2003 for obtaining the first mortgage loan. Such amount is included in interest expense on the Statement of Operations.

The Company paid a distribution of \$14,000 during the nine months ended September 30, 2003 to the common shareholder relating to operating activities of the Company prior to the completion of the offering of preferred shares.

5. Subsequent Events

On October 1, 2004 the Company declared a dividend of \$1,787.00 per share of preferred stock payable to holders of record as of October 1, 2004.

F-87

FSP Royal Ridge Corp.
Financial Statements
December 31, 2003

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Table of Contents

	Page
Financial Statements	----
Independent Auditor's Report.....	F-89
Balance Sheet as of December 31, 2003.....	F-90
Statement of Operations for the year ended December 31, 2003.....	F-91
Statement of Changes in Stockholders' Equity for the year ended December 31, 2003.....	F-92
Statement of Cash Flows for the year ended December 31, 2003.....	F-93
Notes to the Financial Statements.....	F-94

F-88

[LETTERHEAD OF BRAVER AND COMPANY, P.C.]

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Royal Ridge Corp.

We have audited the accompanying balance sheet of FSP Royal Ridge Corp. as of December 31, 2003, and the related statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FSP Royal Ridge Corp. as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Braver and Company, P.C.
Newton, Massachusetts
January 23, 2004

F-89

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FSP Royal Ridge Corp.
Balance Sheet

(in thousands, except shares and par value amounts) December 2003

Assets:

Real estate investments, at cost:		
Land	\$	1
Buildings and improvements		1

Less accumulated depreciation

Real estate investments, net		1
------------------------------	--	---

Acquired real estate leases, net of accumulated amortization of \$143
 Acquired favorable real estate leases, net of accumulated amortization of \$426
 Cash and cash equivalents
 Cash-funded reserves
 Restricted cash
 Step rent receivable
 Prepaid expenses and other assets

Total assets	\$	2
--------------	----	---

Liabilities and stockholders' equity:

Liabilities:

Accounts payable and accrued expenses	\$	
Distributions payable		

Total liabilities

Commitments and contingencies:

Stockholders' equity:

Preferred stock, \$.01 par value, 297.5 shares authorized, issued and outstanding		
Common stock, \$.01 par value, 1 share authorized, issued and outstanding		
Additional paid-in capital		2
Retained deficit and distributions in excess of earnings		(

Total stockholders' equity		2
----------------------------	--	---

Total liabilities and stockholders' equity	\$	2
--	----	---

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See accompanying notes to financial statements.

F-90

FSP Royal Ridge Corp.
Statement of Operations

(in thousands, except shares and per share amounts)	For the Year Ended December 31, 2003
=====	
Revenue:	
Rental	\$ 2,264

Total revenue	2,264

Expenses:	
Rental operating expenses	746
Real estate taxes and insurance	255
Depreciation and amortization	518
Interest	1,731

Total expenses	3,250

Loss before interest income	(986)
Interest income	28

Net loss before common dividends	(958)
Distributions paid to common stockholder	14

Net loss attributable to preferred shareholders	\$ (972)
=====	
Weighted average number of preferred shares outstanding, basic and diluted	297.5
=====	
Net loss per preferred share, basic and diluted	\$ (3,267)
=====	

See accompanying notes to financial statements.

F-91

FSP Royal Ridge Corp.
Statement of Changes in Stockholders' Equity
For the year ended December 31, 2003

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(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retain and in E in E
Private offering of 297.5 shares, net	\$ --	\$ --	\$ 27,277	\$ --
Distributions to stockholders	--	--	--	--
Net loss	--	--	--	--
Balance, December 31, 2003	\$ --	\$ --	\$ 27,277	\$ --

See accompanying notes to financial statements.

F-92

FSP Royal Ridge Corp.
Statement of Cash Flows

(in thousands)	For the Year Ended December 31, 2003
Cash flows from operating activities:	
Net loss	\$ (958)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	518
Amortization of favorable leases	426
Changes in operating assets and liabilities:	
Cash-funded reserve	(1,037)
Restricted cash	(571)
Step rent receivable	(954)
Prepaid expenses and other assets	(14)
Accounts payable and accrued expenses	240
Net cash used for operating activities	(2,350)
Cash flows from investing activities:	
Purchase of real estate assets	(17,873)
Purchase of acquired real estate leases	(1,118)
Purchase of acquired favorable real estate leases	(3,333)
Net cash used for investing activities	(22,324)
Cash flows from financing activities:	
Proceeds from sale of company stock	29,760
Syndication costs	(2,483)

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Distributions to stockholders	(1,389)
Proceeds from long-term debt	24,250
Principal payments on long-term debt	(24,250)

Net cash provided by financing activities	25,888

Net increase in cash and cash equivalents	1,214
Cash and cash equivalents, beginning of period	--

Cash and cash equivalents, end of period	\$ 1,214
=====	

Supplemental disclosure of cash flow information:

Cash paid for:	
Interest	\$ 1,731
Disclosure of non-cash financing activities:	
Dividends declared but not paid	\$ 536

See accompanying notes to financial statements.

F-93

FSP Royal Ridge Corp. Notes to Financial Statements

1. Organization

FSP Royal Ridge Corp. (the "Company") was organized on December 20, 2002 as a Corporation under the laws of the State of Delaware to purchase, own and operate a six-story Class "A" suburban office building containing approximately 161,366 rental square feet of space located on approximately 13.2 acres of land in Alpharetta, GA (the "Property"). The Company acquired the Property on January 30, 2003.

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The results of operations from inception to date are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year.

ESTIMATES AND ASSUMPTIONS

The Company prepares its financial statements and related notes in conformity with accounting principles generally accepted in the United States of America ("GAAP"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

REAL ESTATE AND DEPRECIATION

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Real estate assets are stated at the lower of cost or fair value, as appropriate, less accumulated depreciation.

Costs related to property acquisition and improvements are capitalized. Typical capital items include new roofs, site improvements, various exterior building improvements and major interior renovations. Funding for capital improvements typically is provided by cash set aside at the time the Property was purchased.

Routine replacements and ordinary maintenance and repairs that do not extend the life of the asset are expensed as incurred. Typical expense items include interior painting, landscaping and minor carpet replacements. Funding for repairs and maintenance items typically is provided by cash flows from operating activities.

Depreciation is computed using the straight-line method over the assets' estimated useful lives as follows:

Category	Years
Building - Commercial	39
Building Improvements	15-39
Furniture & Equipment	5-7

F-94

FSP Royal Ridge Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

The following schedule reconciles the cost of the Property as shown in the Offering Memorandum as to the amounts shown on the Company's Balance Sheet:

(in thousands)

Price per Offering Memorandum	\$ 24,250
Plus: Acquisition fees	149
Plus: Other acquisition costs	111
Less: Closing credit for tenant improvements	(3,251)
Less: Closing credit for free rent	(1,270)
Total Acquisition Costs	\$ 19,989

These costs are reported in the Company's Balance Sheet as follows:

Land	\$ 1,649
Building	13,889
Acquired real estate leases	1,118
Acquired favorable real estate leases	3,333
Total reported on Balance Sheet	\$ 19,989

The Company evaluates its assets used in operations by identifying indicators of impairment and by comparing the sum of the estimated undiscounted future cash flows for each asset to the asset's carrying value. When indicators of

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impairment are present and the sum of the undiscounted future cash flows is less than the carrying value of such asset, an impairment loss is recorded equal to the difference between the asset's current carrying value and its fair value based on discounting its estimated future cash flows. At December 31, 2003, no such indicators of impairment were identified.

ACQUIRED REAL ESTATE LEASES

Acquired real estate leases represent the estimated value of legal and leasing costs related to acquired leases that were included in the purchase price when the Company acquired the property. Under SFAS No. 141 "Business Combinations", which was approved by the Financial Accounting Standards Board ("FASB") in June 2001, the Company is required to segregate these costs from its investment in real estate. The Company subsequently amortizes these costs on a straight-line basis over the remaining life of the related leases. Amortization expense of \$143,000 is included in Depreciation and Amortization in the Company's Statement of Operations for the period ended December 31, 2003.

Acquired real estate lease costs included in the purchase price of the Property were \$1,118,000 and are being amortized over the weighted-average period of seven years in respect of the leases assumed. Detail of the acquired real estate leases as of December 31, 2003:

(in thousands)	

Cost	\$ 1,118
Accumulated amortization	(143)

Book value	\$ 975
	=====

The estimated annual amortization expense for the five years succeeding December 31, 2003 are as follows:

(in thousands)	

2004	\$ 156
2005	\$ 156
2006	\$ 156
2007	\$ 156
2008	\$ 156

F-95

FSP Royal Ridge Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

ACQUIRED FAVORABLE REAL ESTATE LEASES

Acquired favorable real estate leases represent the value related to the leases when the lease payments due under a tenant's lease exceed the market rate of the lease at the date the Property was acquired. Under SFAS 141 the Company is required to report this value separately from its investment in real estate. The Company subsequently amortizes this amount on a straight-line basis over the remaining life of the tenant's lease. Amortization of \$426,000 is shown as a reduction of rental income in the Company's Statement of Operations for the period ended December 31, 2003.

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The Acquired favorable real estate leases included in the purchase price of the property was \$3,333,000 and is being amortized over a period of seven years with respect of the leases assumed. Details of the acquired favorable real estate leases as of December 31, 2003:

(in thousands)	

Cost	\$ 3,333
Accumulated amortization	(426)

Book value	\$ 2,907
	=====

The estimated annual amortization expense for the five years succeeding December 31, 2003 are as follows:

2004	\$ 465
2005	\$ 465
2006	\$ 465
2007	\$ 465
2008	\$ 465

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents.

CASH-FUNDED RESERVES

The Company has set aside funds in anticipation of future capital needs of the Property. These funds typically are used for the payment of real estate assets and deferred leasing commissions; however, there is no legal restriction on their use and they may be used for any Company purpose.

RESTRICTED CASH

Restricted cash represents funds held in escrow for tenant improvements.

MARKETABLE SECURITIES

The Company accounts for investments in debt securities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company typically classifies its debt securities as available-for-sale.

There were no investments in marketable securities at December 31, 2003.

F-96

FSP Royal Ridge Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

CONCENTRATION OF CREDIT RISKS

Cash, cash equivalents and short-term investments are financial instruments that potentially subject the Company to a concentration of credit risk. The Company maintains its cash balances and short-term investments principally in one bank which the Company believes to be creditworthy. The Company periodically assesses

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the financial condition of the bank and believes that the risk of loss is minimal. Cash balances held with various financial institutions frequently exceed the insurance limit of \$100,000 provided by the Federal Deposit Insurance Corporation.

For the period ended December 31, 2003 rental income was derived from various tenants. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

The following tenants represent greater than 10% of total revenue:

Axis U.S Insurance	52%
Hagemeyer North America, Inc.	38%

FINANCIAL INSTRUMENTS

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

STEP RENT RECEIVABLE

Certain leases provide for fixed increases over the life of the lease. Rental revenue is recognized on the straight-line basis over the related lease term; however, billings by the Company are based on required minimum rentals in accordance with the lease agreements. Step rent receivable, which is the cumulative revenue recognized in excess of amounts billed by the Company, is \$ 954,000 at December 31, 2003.

SYNDICATION FEES

Syndication fees are selling commissions and other costs associated with the initial offering of the Company's preferred shares. Such costs, in the amount of \$ 2,483,000 have been reported as a reduction in Stockholders' Equity in the Company's Balance Sheet.

REVENUE RECOGNITION

The Company has retained substantially all of the risks and benefits of ownership of the Company's commercial properties and accounts for its leases as operating leases. Rental income from leases, which may include rent concession (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any percentage rent arrangements with its commercial property tenants. Reimbursable costs are included in rental income in the period earned. A schedule showing the components of rental revenue is shown below.

(in thousands)	Period Ended December 31, 2003
Income from leases	\$ 1,152
Straight-line rent adjustment	954
Reimbursable expenses	584
Amortization of favorable leases	(426)
Total	\$ 2,264

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FSP Royal Ridge Corp. Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

INTEREST INCOME

Interest income is recognized when the related services are performed and the earnings process is complete.

INCOME TAXES

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

NET INCOME PER SHARE

The Company follows Statement of Financial Accounting Standards No. 128 "Earnings per Share", which specifies the computation, presentation and disclosure requirements for the Company's net income per share. Basic net income per preferred share is computed by dividing net income by the weighted average number of preferred shares outstanding during the period. Diluted net income per preferred share reflects the potential dilution that could occur if securities or other contracts to issue shares were convertible into shares. There were no potential dilutive shares outstanding at December 31, 2003. Subsequent to the completion of the offering of preferred shares, the holders of common stock are not entitled to share in any income nor in any related dividend.

3. Recent Accounting Standards

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". This statement was effective January 1, 2003. SFAS No. 146 replaces current accounting literature and requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The adoption of this statement did not have a material effect on the Company's financial position, results of operations and cash flows.

F-98

FSP Royal Ridge Corp. Notes to Financial Statements

4. Income Taxes

The Company files as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. In order to qualify as a REIT, the Company is required to distribute at least 90% of its taxable income to shareholders and to meet certain asset and income tests as well as certain other requirements. The Company will generally not be liable for federal income taxes, provided it satisfies these requirements. Even as a qualified REIT, the Company is subject

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to certain state and local taxes on its income and property.

For the period ended December 31, 2003, the Company incurred a net operating loss for income tax purposes of approximately \$1,349,000 that can be carried forward until it expires in the year 2023.

At December 31, 2003, the Company's net tax basis of its real estate assets was \$21,822,000.

The following schedule reconciles net income (loss) to taxable income subject to dividend requirements:

(in thousands)	Period Ended December 31, 2003
Net loss	\$ (958)
Add: Book depreciation and amortization	518
Amortization of favorable real estate leases	426
Deferred rent	99
Less: Tax depreciation and amortization	(480)
Straight-line rents	(954)
Taxable loss (1)	\$ (1,349)

(1) A tax loss is not subject to a dividend requirement.

The following schedule reconciles cash distributions paid to the dividends paid deduction:

(in thousands, except per share data)	Total	Period Ended December 31, Per Preferred Share	Per Common Share
Cash dividends paid	\$ 1,389	\$ 4,623	\$ 14,232
Less: Return of Capital	(1,389)	(4,623)	(14,232)
Dividends paid deduction	\$ --	\$ --	\$ --

F-99

FSP Royal Ridge Corp.
Notes to Financial Statements

5. Capital Stock

PREFERRED STOCK

Generally, each holder of Shares of Preferred Stock is entitled to receive ratably all dividends, if any, declared by the Board of Directors out of funds legally available. The right to receive dividends shall be non-cumulative, and no right to dividends shall accrue by reason of the fact that no dividend has been declared in any prior year. Each holder of Shares will be entitled to receive, to the extent that funds are available therefore, \$100,000 per Share,

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before any payment to the holder of Common Stock, out of distributions to stockholders upon liquidation, dissolution or the winding up of the Company; the balance of any such funds available for distribution will be distributed among the holders of Shares and the holder of Common Stock, pro rata based on the number of shares held by each; provided, however, that for these purposes, one share of Common Stock will be deemed to equal one-tenth of a share of Preferred Stock.

In addition to certain voting rights provided in the corporate agreements, the holder of Shares, acting by consent of at least 51%, shall have the further right to approve or disapprove a proposed sale of the Property, the merger of the Company with any other entity and amendments to the corporate charter. A vote of the holders of 66.67% of the Shares is required for the issue of any additional shares of capital stock. Holders of Shares have no redemption or conversion rights.

COMMON STOCK

Franklin Street Properties Corp. ("FSP"), is the sole holder of the Company's Common Stock. FSP has the right, as one class together with the holders of Preferred Stock, to vote to elect the directors of the Company and to vote on all matters except those voted by the holders of Shares of Preferred Stock. Subsequent to the completion of the offering of the preferred shares the holders of common shares are not entitled to share in any earnings nor any related dividend.

6. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. For the period ended December 31, 2003, fees incurred under the agreement were \$17,605.

An acquisition fee of \$149,000 and other costs of \$111,000 were paid in 2003 to an affiliate of the Common Shareholder. Such fees were included in the cost of the real estate.

Syndication fees of \$2,380,000 were paid in 2003 to an affiliate of the Common Shareholder for services related to syndication of the Company's preferred stock.

During 2003, the Company borrowed and repaid in full a note payable to FSP, principal of \$24,250,000, with interest equal to the Citizens Bank base rate. Interest paid to FSP was \$20,000. The average interest rate during the time the loan was outstanding was 4.50%.

A commitment fee of \$1,711,000 was paid to FSP for obtaining the first mortgage loan. Such amount is included in interest expense on the Statement of Operations.

The Company paid a distribution of \$14,000 to the common shareholder relating to operating activities of the Company prior to the completion of the offering of preferred shares.

F-100

FSP Royal Ridge Corp.
Notes to Financial Statements

7. Commitments and Contingencies

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The Company, as lessor, has minimum future rentals due under non-cancelable operating leases as follows:

(in thousands)	Year Ending December 31, -----	Amount -----
	2004	\$ 2,198
	2005	2,040
	2006	2,071
	2007	2,123
	2008	2,176
	Thereafter	6,750

		\$ 17,358
		=====

In addition, the lessees are liable for real estate taxes and certain operating expenses of the Property.

Upon acquiring the commercial rental property in January 2003, the Company was assigned the lease agreements between the seller of the Property and the existing tenants. The original lease periods range from two to ten years with renewal options.

F-101

SCHEDULE III

ROYAL RIDGE
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003

Description	Encumbrances (1) -----	Initial Cost -----			
		Land -----	Buildings Improvements and Equipment -----	Costs Capitalized (Disposals) Subsequent to Acquisition -----	
		(in thousands)			
Royal Ridge, Alpharetta, GA		1,649	16,224	--	

		Historical Costs			
Description	Land -----	Buildings Improvements and Equipment -----	Total (2) -----	Accumulated Depreciation -----	Total Costs, Net of Accumulated Depreciation -----
					(in thousands)

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Royal Ridge, Alpharetta, GA 1,649 16,224 17,873 375 17,498

- (1) There are no encumbrances on the above properties.
 (2) The aggregate cost for Federal Income Tax purposes is \$21,822.

F-102

Royal Ridge

The following table summarizes the changes in the Company's real estate investments and accumulated depreciation:

(in thousands)	December 31, ----- 2003 -----
=====	
Real estate investments, at cost:	
Balance, beginning of period	\$ --
Acquisitions	17,873
Improvements	--
Dispositions	--

Balance, end of period	\$17,873
=====	
Accumulated depreciation:	
Balance, beginning of period	\$ --
Depreciation	375
Dispositions	--

Balance, end of period	\$ 374
=====	

F-103

ROYAL RIDGE

FOR THE PERIOD JANUARY 1, 2003 TO JANUARY 29, 2003 AND

FOR THE YEAR ENDED DECEMBER 31, 2002

CONTENTS

	PAGE
Independent auditors' report	F-105
Statements of revenue over certain operating expenses	F-106
Notes accompanying the statements of revenue over certain operating expenses	F-107

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Royal Ridge Corp.

We have audited the accompanying statements of revenue over certain operating expenses (the "Statements") of Royal Ridge for the period January 1, 2003 to January 29, 2003 and for the year ended December 31, 2002. These Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statements' presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Statements were prepared to comply with the requirements of Rule 3-14 of Regulation S-X of the Securities and Exchange Commission, and exclude certain expenses described in Note 2 and, therefore, are not intended to be a complete presentation of the Property's revenue and expenses.

In our opinion, these Statements referred to above present fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of Royal Ridge for the period January 1, 2003 to January 29, 2003 and for the year ended December 31, 2002, in conformity with the basis of accounting described in Note 2.

/s/ Braver and Company, P.C.
Newton, Massachusetts
February 28, 2004

ROYAL RIDGE
STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
FOR THE PERIOD JANUARY 1, 2003 TO JANUARY 29, 2003 AND
FOR THE YEAR ENDED DECEMBER 31, 2002

	2003	2002
	-----	-----
REVENUE:		
Rental income	\$ 1,195	\$ 3,084
	-----	-----
CERTAIN OPERATING EXPENSES (Note 2):		
Taxes and insurance	19,046	184,096
Management fees	2,652	33,212
Administrative	4,736	62,264
Operating and maintenance	87,616	526,358

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	-----	-----
	114,050	805,930
	-----	-----
Excess of certain operating expenses over revenue	\$(112,855)	\$(802,846)
	=====	=====

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

F-106

ROYAL RIDGE
NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Alpharetta, Georgia (the "Property"). These Statements are the results of operations of the Property under the basis of accounting described in Note 2 for the period and year described prior to the acquisition of the Property by FSP Royal Ridge Corp. The Property consists of a six-story Class "A" institutional quality suburban office tower containing approximately 161,366 square feet located on approximately 13.2 acres of land. The Property was sold to FSP Royal Ridge Corp. on January 30, 2003. No financial information is provided for 2001. The property was constructed in 2001 and there were no leases or tenants until 2002.

2. BASIS OF ACCOUNTING:

The accompanying Statements have been prepared on the accrual basis of accounting. The Statements have been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, these Statements exclude certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, interest, corporate expenses and certain other costs not directly related to future operations of the Property.

3. REVENUE RECOGNITION:

Rental revenue includes income from leases, certain reimbursable expenses, and other income associated with renting the property. A summary of rental revenue is shown in the following table:

	For the period January 1, 2003 to January 29, 2003 -----	Year Ended December 31, 2002 -----
Reimbursable expenses	\$ --	\$ 3,084
Other income	1,195	--
	-----	-----
Total	\$ 1,195	\$ 3,084
	=====	=====

Royal Ridge has retained substantially all of the risks and benefits of

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the Property and accounts for its leases as operating leases. Rental income from leases, which includes rent concessions (including free rent and tenant improvement allowances) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. However, for the year ended December 31, 2002 and for the period January 1, 2003 to January 29, 2003, Royal Ridge did not recognize any rental revenue due to a "free rent" provision in its lease agreements. Had Royal Ridge recognized the rental revenue under a straight-line basis, such revenue would have been written off as uncollectible upon the sale of the Property as described in Note 1. The Company does not have any percentage rent arrangements with its tenants. Reimbursable costs are included in rental income in the period earned.

4. USE OF ESTIMATES:

The preparation of the Statements in conformity with the basis of accounting described in Note 2 requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F-107

ROYAL RIDGE
NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

5. CONCENTRATIONS OF RISKS:

For the period January 1, 2003 to January 29, 2003, and for the year ended December 31, 2002, rental income was received from three lessees. As such, future receipts are dependent upon the financial strength of these lessees and their ability to perform under the lease agreements

6. LEASES:

The Company, as lessor, has minimum future rentals due under noncancellable operating leases as follows:

Year Ending December 31, -----	Amount -----
2003	\$ 1,153,000
2004	2,198,000
2005	2,040,000
2006	2,071,000
2007	2,123,000
Thereafter	8,926,000

	\$ 18,511,000
	=====

In addition, the lessees are liable for real estate taxes and operating expenses as direct expenses to them.

F-108

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SELECTED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma financial information has been prepared based upon certain pro forma adjustments to the historical consolidated financial statements of FSP Corp. and the target REITs. The pro forma consolidated balance sheets have been presented as if the mergers occurred as of September 30, 2004. The pro forma consolidated statements of income for the nine months ended September 30, 2004 and for the year ended December 31, 2003 and the consolidated pro forma statements of cash flow for the nine months ended September 30, 2004 and for the year ended December 31, 2003 are presented as if the mergers occurred at the beginning of the period presented.

The pro forma financial information has been prepared assuming all of the target REITs participate in the mergers. If one or more target REITs does not obtain the vote required for the consummation of the merger with such target REIT, FSP Corp. will not proceed with the mergers of any other target REIT.

The unaudited pro forma consolidated financial statement data are not necessarily indicative of what the combined company's actual financial position or results of operations would have been as of the date or for the period indicated, nor do they purport to represent the combined company's financial position or results of operations as of or for any future period. The unaudited pro forma consolidated financial statement data should be read in conjunction with all financial statements included elsewhere herein or incorporated herein by reference.

F-109

Franklin Street Properties Corp.
Combining Condensed Consolidated Pro Forma Balance Sheets
September 30, 2004
(Unaudited)

(in thousands)	Historical FSP Corp.	Historical Target REITs(k)	Pro Forma Adjustment	Pro F
Assets:				
Real estate assets, net	\$ 442,197	\$ 122,561	\$ 14,064 (c) (d)	\$ 57
Acquired favorable leases, net	--	8,814	232 (d)	
Acquired lease origination costs, net	6,346	3,853	236 (d)	1
Investment in non-consolidated REITs	4,292	--	--	
Cash and cash equivalents	50,630	16,269	(685) (c) (475) (b)	6
Restricted cash	1,039	706	--	
Tenant rents receivable, net	552	36	--	
Straight line rents receivable, net	4,980	2,560	(2,560) (p)	
Prepaid expenses	3,475	181	--	
Deferred leasing commissions, net	1,293	358	--	
Office computeres and equipment, net	408	--	--	
Total assets	\$ 515,212	\$ 155,338	\$ 10,812	\$ 68

Liabilities and stockholders' equity:

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Liabilities:

Accounts payable and accrued expenses	\$ 8,574	\$ 3,897	\$ --	\$ 1
Accrued compensation	1,050	--	--	
Distribution payable	--	--	6,021 (o)	
Tenant security deposits	1,039	135		

Total liabilities	10,663	4,032	6,021	2
-------------------	--------	-------	-------	---

Stockholders' Equity:

Preferred stock	--	--	--	
Common stock	5	--	1 (i)	
Additional paid in capital	512,813	167,412	(11,316) (i)	66
Treasury stock	(10)	--	--	
Retained earnings (distributions in excess of earnings)	(8,259)	(16,106)	16,106 (q)	(

Total stockholders' equity	504,549	151,306	4,791	66
----------------------------	---------	---------	-------	----

Total liabilities and stockholders' equity	\$ 515,212	\$ 155,338	\$ 10,812	\$ 68
--	------------	------------	-----------	-------

See accompanying notes to condensed consolidated pro forma financial statements

F-110

Franklin Street Properties Corp.
Combining Condensed Consolidated Pro Forma Statements of Income
For the nine months ended
September 30, 2004
(Unaudited)

(in thousands, except per share amounts)	Historical FSP Corp.	Historical Target REITs(1)	Pro Forma Adjustments	Pro
Revenue:				
Rental income	\$ 51,411	\$ 16,975	\$ 45 (d)	\$
Syndication fees	8,603	--	--	
Transaction fees	9,209	--	--	
Sponsored REIT income	2,357	--	--	
Management fees and interest from loans	803	--	(175) (e)	
Equity in earnings of investment in REIT	182	--	--	
Other	13	--	--	
<hr/>				
Total revenue	72,578	16,975	(130)	

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Expenses:				
Rental operating expenses	10,267	3,917	(175)	(e)
Real estate taxes and insurance	6,702	2,220	--	
Depreciation and amortization	9,984	2,819	304	(d)
			26	(d)
Sponsored REIT expenses	1,693	--	--	
Selling, general and administrative	4,920	--	475	(b)
Commissions	4,384	--	--	
Interest	517	--	--	

Total expenses	38,467	8,956	630	

Income (loss) before interest, taxes and discontinued operations,	34,111	8,019	(760)	
Interest income	489	179	--	
Taxes on income (a)	(760)	--	--	
Income from discontinued operations	--	--	--	

Net income	\$ 33,840	\$ 8,198	\$ (760)	\$
=====				
Weighted average shares outstanding basic and diluted	49,628	--	10,895	(i)
=====				
Net income per share basic and diluted	\$ 0.68	\$ --	\$ --	\$
=====				

See accompanying notes to condensed consolidated pro forma financial statements.

F-111

Franklin Street Properties Corp.
Combining Condensed Consolidated Pro Forma Statements of Income
For the year ended
December 31, 2003
(Unaudited)

(in thousands, except per share amounts)	Historical FSP Corp.	2003 Merger Pro Forma		Historical Target REITs (m)	H
		Adjustment (j)	Adjusted FSP Corp.		

Revenue:					
Rental income	\$ 49,789	\$15,204	\$ 64,993	\$ 20,135	\$
Syndication fees	14,631	--	14,631	--	
Transaction fees	14,745	--	14,745	--	
Sponsored REIT income	3,452	--	3,452	--	
Management fees and interest on	1,129	--	1,129	--	

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Other	22	--	22	--

Total revenue	83,768	15,204	98,972	20,135

Expenses:				
Rental operating expenses	10,425	3,997	14,422	4,242
Real estate taxes and insurance	6,264	2,667	8,931	2,708
Depreciation and amortization	9,265	3,298	12,563	3,463
Sponsored REIT expenses	2,620	--	2,620	--
Selling, general and administrative	5,711	--	5,711	--
Commissions	7,291	--	7,291	--
Interest	1,036	--	1,036	5,175

Total expenses	42,612	9,962	52,574	15,588

Income (loss) before interest, taxes, discontinued operations and gain on sales of properties	41,156	5,242	46,398	4,547
Interest Income	367	117	484	193
Taxes on income (a)	(1,700)	--	(1,700)	--
Income from discontinued operations	195	--	195	--
Gain on sale of properties, net of tax	6,362	--	6,362	--
Dividends to common shareholder	--	--	--	(387)

Net income	\$ 46,380	\$ 5,359	\$ 51,739	\$ 4,353
=====				
Weighted average shares outstanding, basic and diluted	39,214	10,416	49,630	--
=====				
Income per share attributable to:				
Continuing operations	\$ 1.02	\$ --	\$ --	\$ --
Discontinued operations	--	--	--	--
Gain on sale of properties, net	\$ 0.16	--	--	--

Basic and diluted net income per share	\$ 1.18	\$ --	\$ --	\$ --
=====				

See accompanying notes to condensed consolidated pro forma financial statements

F-112

Franklin Street Properties Corp.
Consolidated Pro Forma Statements of Cash Flow
For the nine months ended
September 30, 2004
(Unaudited)

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(in thousands)	Historical FSP Corp.	Historical Target REITs (r)
Cash flows from operating activities:		
Net income	\$ 33,840	\$ 8,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,984	2,819
Amortization of above market lease	176	1,934
Equity in earnings from non-consolidated REITs	(182)	--
Distributions from non-consolidated REITs	147	--
Shares issued as compensation	162	--
Changes in operating assets and liabilities:		
Restricted cash	(57)	15
Tenant rent receivables, net	329	14
Straight-line rents, net	(893)	(514)
Prepaid expenses and other assets, net	(2,669)	(59)
Accounts payable and accrued expenses	3,534	(276)
Accrued compensation	(485)	--
Tenant security deposits	57	(15)
Payment of deferred leasing commissions	(548)	(329)
Net cash provided by (used for) operating activities	43,395	11,787
Cash flows from investing activities:		
Purchase of real estate assets and related leases, office computers and furniture, capitalized merger costs	(993)	(225)
Investment in non-consolidated REITs	(4,257)	--
Sale of assets held for syndication	4,117	--
Net cash provided by (used for) investing activities	(1,133)	(225)
Cash flows from financing activities:		
Distributions to stockholders	(46,152)	(12,170)
Proceeds from (payments to) bank note payable, net	(4,117)	--
Purchase of treasury stock	(156)	--
Net cash provided by (used for) financing activities	(50,425)	(12,170)
Net increase (decrease) in cash and cash equivalents	(8,163)	(608)
Cash and cash equivalents, beginning of period	58,793	16,877
Cash and cash equivalents, end of period	\$ 50,630	\$16,269
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 517	\$ --
Income taxes	\$ 1,450	\$ --
Non-cash investing and financing activities:		

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Assets acquired through issuance of common stock in merger
transaction, net \$ -- \$ --

See accompanying notes to condensed consolidated pro forma financial statements.

F-113

Franklin Street Properties Corp
Consolidated Pro Forma Statements of Cash Flow
For the year ended
December 31, 2003
(Unaudited)

(in thousands)	Historical FSP Corp.	2003 Merger Pro Forma Adjustment	Adjusted FSP Corp.	Historical Target REITs (s)
<hr/>				
Cash flows from operating activities:				
Net income	\$ 46,380	\$5,359	\$ 51,739	\$ 4,740
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization expense	9,530	3,298	12,828	3,463
Amortization of above market lease	138	--	138	2,381
Gain on sale of real estate assets	(6,362)	--	(6,362)	--
Changes in operating assets and liabilities:				
Restricted cash	(1)	--	(1)	(677)
Tenant rent receivables, net	(302)	--	(302)	(50)
Straight-line rents, net	(1,030)	--	(1,030)	(1,817)
Prepaid expenses and other assets, net	305	--	305	(2,729)
Accounts payable and accrued expenses	(9,053)	--	(9,053)	2,255
Accrued compensation	258	--	258	--
Tenant security deposits	1	--	1	106
Payment of deferred leasing commissions	(487)	--	(487)	(39)
<hr/>				
Net cash provided by (used for) operating activities	39,377	8,657	48,034	7,633
<hr/>				
Cash flows from investing activities:				
Cash acquired through issuance of common stock in merger transaction	23,524	--	23,524	--
Purchase of real estate assets and related leases, office computers and furniture capitalized merger costs	(2,388)	--	(2,388)	(68,361)
Change in deposits on real estate assets	841	--	841	--
Investment in assets held for syndication	(4,117)	--	(4,117)	--
Proceeds received on sales of real estate assets	21,870	--	21,870	--
<hr/>				
Net cash provided by (used for) investing activities	39,730	--	39,730	(68,361)
<hr/>				
Cash flows from financing activities:				

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Proceeds from sale of company stock	--	--	--	78,377
Distributions to stockholders	(46,747)	--	(46,747)	(12,216)
Proceeds from (payments to) bank note payable, net	4,117	--	4,117	--
<hr/>				
Net cash provided by (used for) financing activities	(42,630)	--	(42,630)	66,161
<hr/>				
Net increase (decrease) in cash and cash equivalents	36,477	8,657	45,134	5,433
Cash and cash equivalents, beginning of year	22,316	--	22,316	3,640
<hr/>				
Cash and cash equivalents, end of year	\$ 58,793	\$8,657	\$ 67,450	\$ 9,073
<hr/>				
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	\$ 1,036	\$ --	\$ 1,036	\$ 5,175
Income taxes	\$ 1,963	\$ --	1,963	\$ --
Non-cash investing and financing activities:				
Dividends declared but not paid	\$ --	\$ --	--	\$ 4,092
Assets acquired through issuance of common stock in merger transaction, net	\$ 297,468	\$ --	\$ 297,468	\$ --

See accompanying notes to condensed consolidated pro forma financial statements.

F-114

FRANKLIN STREET PROPERTIES CORP.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

BASIS OF PRESENTATION

The following unaudited pro forma condensed consolidated financial statement presentation has been prepared based upon certain pro forma adjustments to the historical consolidated financial statements of FSP Corp. The pro forma balance sheets are presented as if the mergers occurred as of September 30, 2004. The pro forma statements of income and the pro forma statements of cash flow are presented as if the mergers occurred as of the beginning of the periods presented.

The mergers will be treated as a purchase of assets and each target REIT's assets and liabilities will be recorded on FSP Corp.'s books at their fair value as of the effective date of the mergers. The value ascribed to the net assets of the target REITs is estimated to be \$156,424,000, which includes real estate assets of \$149,075,000 at their appraised values, cash of \$6,664,000 and capitalized merger costs of \$685,000. Other assets, net of liabilities, are expected to be immaterial. FSP Corp. will record the mergers based upon the fair value of the assets acquired, not the value of the shares of FSP Corp.'s common stock issued. The value allocated to the assets acquired in the mergers is preliminary: the final value allocated to the assets acquired will be determined as of the actual merger date.

PRO FORMA ADJUSTMENTS

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Certain assumptions regarding the operations of FSP Corp. have been made in connection with the preparation of the pro forma condensed consolidated financial information. These assumptions are as follows:

- (a) FSP Corp. and each of the target REITs have elected to be, and are qualified as, a real estate investment trust for federal income tax purposes. Each entity has met the various required tests; therefore, no provision for federal or state income taxes has been reflected on real estate operations.

FSP Corp. has subsidiaries which are not in the business of real estate operations. Those subsidiaries are taxable as real estate investment trust subsidiaries, or TRS, and are subject to income taxes at statutory tax rates. The taxes on income shown in the pro forma statements of income are the taxes on income of the TRS. There are no material items that would cause a deferred tax asset or a deferred tax liability.

- (b) Costs of the mergers to the target REITs are estimated at \$475,000 and are reflected as paid at September 30, 2004, and are recorded as an administrative expense.
- (c) The costs of the mergers to FSP Corp. are estimated at \$685,000 and are reflected as paid as of September 30, 2004 and are capitalized to the assets acquired.
- (d) The following schedule shows the cost of the property (at its appraised value) plus capitalized merger costs for each target REIT.

(in thousands)	Montague	Addison	Royal Ridge	Collins	Total
Purchase price of properties					
Appraised value	\$ 20,000	\$ 54,500	\$ 26,075	\$ 48,500	\$149,075
Capitalized merger costs	125	239	112	209	685
Total	\$ 20,125	\$ 54,739	\$ 26,187	\$ 48,709	\$149,760

F-115

FRANKLIN STREET PROPERTIES CORP.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

The cost of the property held by each target REIT (including capitalized merger costs of \$685,000) has been allocated to real estate assets, acquired lease origination costs and acquired favorable leases. Acquired 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). Acquired favorable leases represents the value associated with a lease which has a rental stream with above market rates. The value assigned to buildings, land and leases approximates their fair value.

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The following schedule shows the difference between historical costs of the properties and their allocated purchase price. The purchase price of the properties is determined based upon the fair value of the assets acquired. Depreciation and amortization for the target REITs is based on a preliminary allocation of the purchase price to real estate investments and to the leases acquired. The allocation is subject to change as additional information is obtained. An increase in the allocation to lease origination costs will result in an increase in amortization expense. For each \$1,000,000 increase in lease origination costs, the related pro forma amortization expense will increase by approximately \$200,000 per year.

	Historical Cost -----	Allocated Purchase Price -----	Difference -----	Estimated Life (years) -----	Nine Months -----
Montague					
Land	\$ 10,500	7,878	\$ (2,622)	N/A	
Building	9,939	10,202	263	39	
Acquired favorable leases	2,616	1,874	(742)	3	
Acquired lease origination costs	241	171	(70)	3	
	-----	-----	-----		
Total	\$ 23,296 =====	\$ 20,125 =====	\$ (3,171) =====		
Addison Circle					
Land	\$ 4,365	\$ 4,140	\$ (225)	N/A	
Building	43,706	49,499	5,793	39	
Acquired favorable leases	--	--	--	--	
Acquired lease origination costs	1,150	1,100	(50)	4	
	-----	-----	-----		
Total	\$ 49,221 =====	\$ 54,739 =====	\$ 5,518 =====		
Royal Ridge					
Land	\$ 1,649	\$ 2,542	\$ 893	N/A	
Building	15,537	19,303	3,766	39	
Acquired favorable leases	2,558	3,251	693	6	
Acquired lease origination costs	858	1,091	233	6	
	-----	-----	-----		
Total	\$ 20,602 =====	\$ 26,187 =====	\$ 5,585 =====		
Collins Crossing					
Land	\$ 4,022	\$ 4,308	\$ 286	N/A	
Building	32,843	38,753	5,910	39	
Acquired favorable leases	3,640	3,921	281	4	
Acquired lease origination costs	1,604	1,727	123	4	
	-----	-----	-----		
Total	\$ 42,109 =====	\$ 48,709 =====	\$ 6,600 =====		
Total					
Land	\$ 20,536	\$ 18,868	\$ (1,668)	N/A	
Building	102,025	117,757	15,732	39	
	-----	-----	-----		
Real estate assets, net	122,561	136,625	14,064		

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Acquired favorable leases	8,814	9,046	232	3-6
Acquired lease origination costs	3,853	4,089	236	3-6
	-----	-----	-----	
Total	\$135,228	\$149,760	\$ 14,532	
	=====	=====	=====	

F-116

FRANKLIN STREET PROPERTIES CORP.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

- (e) Management fees charged by FSP Corp. to the target REITs have been eliminated from revenue and expenses as follows.

Nine Months Ended September 30, 2004	Year Ended December 31, 2003
-----	-----
\$ 175,000	\$ 204,000

- (f) Interest of \$273,000 charged by FSP Corp. on loans to the two target REITs syndicated in 2003 has been eliminated from revenue and expenses. See footnote (g) for additional interest expense incurred during syndications.
- (g) Income and expenses directly related to the syndication of two target REITs in 2003 have been eliminated in the pro forma Statements of Income.

Revenue directly related to the syndication of two target REITs in 2003 that is included in FSP Corp.'s financial statements as follows:

Loan origination fees	\$ 4,902,000	
Other organization costs	656,000	

Total transaction fees		\$ 5,558,000
Syndication fees, gross	6,820,000	
Syndication fees, rebates	(1,417,000)	

Total syndication fees, net		5,403,000

Total revenue adjustment		\$10,961,000
		=====

F-117

FRANKLIN STREET PROPERTIES CORP.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

The two target REITs have accounted for these fees in their

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financial statements as follows:

Interest expense	\$4,902,000
Real estate acquisition costs	656,000

	\$5,558,000
	=====
Gross syndication fees recorded as an offset to additional paid-in capital	\$6,820,000
	=====

In connection with the syndication of the two target REITs in 2003, FSP Corp. incurred direct expenses of \$264,000 relating to interest expense that is eliminated in the pro forma statement of income.

- (h) After a sponsored REIT purchases a real estate asset but prior to the final syndication of the sponsored REIT, FSP Corp. records its pro rata share of the operations of the sponsored REIT into FSP Corp.'s statement of operations as sponsored REIT income and sponsored REIT expenses. Subsequent to the syndication, the sponsored REIT typically declares and pays a dividend to FSP Corp. This adjustment eliminates duplicate revenues and expenses prior to the syndication of the target REITs. A summary of the adjustment is shown below:

(in thousands)	Nine Months Ended September 30, 2004	Year Ended December 31, 2003

Sponsored REIT income	\$ --	\$ 1,595
Sponsored REIT expenses	--	1,208
	-----	-----
Dividends to common shareholder	\$ --	\$ 387
	=====	=====

- (i) Approximately 10,894,994 shares of FSP common stock will be issued in exchange for the 1,822.5 outstanding shares of target REIT preferred stock in connection with the mergers. Stockholders' equity will be adjusted by the net difference between the assets and liabilities acquired in the merger.
- (j) Represents the revenue and expenses of the 13 Sponsored REITs acquired by FSP Corp. from January 1, 2003 to May 31, 2003.

(unaudited) (in thousands)	For the period January 1, 2003 to May 31, 2003

Revenue	\$ 15,204
Real estate operating expenses	(3,997)
Real estate taxes and insurance	(2,667)
Depreciation and amortization	(3,298)
Interest income	117

Net income	\$ 5,359
	=====

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F-118

(k) The following table combines the historical balance sheets of the target REITs as of September 30, 2004.

(in thousands)

	Montague	Addison Circle	Royal Ridge	Collin
	-----	-----	-----	-----
Assets:				
Land	\$ 10,500	\$ 4,365	\$ 1,649	\$
Building	10,499	46,112	16,224	
	-----	-----	-----	-----
Real estate investments, cost	20,999	50,477	17,873	
Less accumulated depreciation	560	2,406	687	
	-----	-----	-----	-----
Real estate investments, net	20,439	48,071	17,186	
Acquired favorable leases, net	2,616	--	2,558	
Acquired lease origination costs, net	241	1,150	858	
Cash and equivalents	3,633	5,492	2,510	
Restricted cash	--	20	571	
Tenant rent receivable, net	--	1	--	
Step rent receivable, net	461	531	1,040	
Prepaid expenses	22	99	9	
Deferred leasing commissions, net	--	358	--	
	-----	-----	-----	-----
Total assets	\$ 27,412	\$ 55,722	\$ 24,732	\$
	=====	=====	=====	=====
Liabilities and stockholders' Equity:				
Accounts payable and accrued expenses	\$ 465	\$ 1,694	\$ 475	\$
Tenant security deposits	--	20	--	
	-----	-----	-----	-----
Total liabilities	465	1,714	475	
	-----	-----	-----	-----
Stockholders' equity				
Preferred stock	--	--	--	
Common stock	--	--	--	
Additional paid in capital	30,652	58,383	27,277	
Retained deficit and distributions in excess of earnings	(3,705)	(4,375)	(3,020)	
	-----	-----	-----	-----
Total stockholders' equity	26,947	54,008	24,257	
	-----	-----	-----	-----
Total liabilities & stockholders' equity	\$ 27,412	\$ 55,722	\$ 24,732	\$
	=====	=====	=====	=====

F-119

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(Unaudited)

(l) The following table combines the historical operations for the target REITs for the nine months ended September 30, 2004.

(in thousands)

	Montague	Addison Circle	Royal Ridge	Collins Crossing	
	-----	-----	-----	-----	
Revenue:					
Rental	\$ 2,592	\$ 6,892	\$ 2,286	\$ 5,205	\$
Total revenue	2,592	6,892	2,286	5,205	
Expenses:					
Rental operating expenses	273	1,490	693	1,461	
Real estate taxes and insurance	210	1,045	250	715	
Depreciation and amortization	282	1,136	429	972	
Total expenses	765	3,671	1,372	3,148	
Income before interest	1,827	3,221	914	2,057	
Interest income	34	67	27	51	
Net income	\$ 1,861	\$ 3,288	\$ 941	\$ 2,108	\$

(m) The following table combines the historical operations of the target REITs for the periods ended December 31, 2003.

	For the Period			
	For the Year Ended December 31, 2003		January 30, 2003 to December 31, 2003	March 1 December
	-----	-----	-----	-----
(in thousands)				
Revenue:				
Rental	\$ 3,645	\$ 8,554	\$ 2,264	\$
Total revenue	3,645	8,554	2,264	
Expenses:				
Rental operating expenses	314	1,783	746	
Real estate taxes and insurance	339	1,354	255	
Depreciation and amortization	368	1,497	518	
Interest	--	--	1,731	
Total expenses	1,021	4,634	3,250	

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Income (loss) before interest	2,624	3,920	(986)
Interest income	45	85	28
Dividends to common shareholders	--	--	(14)
Net income (loss) attributable to preferred shareholders	\$ 2,669	\$ 4,005	\$ (972)

F-120

FRANKLIN STREET PROPERTIES CORP.
 NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
 (Unaudited)

(n) The following information represents the historical revenues over certain operating expenses for two properties from January 1, 2003 through the date of acquisition by a target REIT. Royal Ridge was purchased January 30, 2003 by FSP Royal Ridge Corp. and Collins Crossing was purchased March 3, 2003 by FSP Collins Crossing Corp.

(in thousands)	For the Period		Total
	January 1, 2003 to January 29, 2003 Royal Ridge	January 1, 2003 to March 2, 2003 Collins Crossing	
Revenue:			
Rental	\$ 1	\$ 1,347	\$ 1,348
Total revenue	1	1,347	\$ 1,348
Expenses:			
Rental operating expenses	95	320	415
Real estate taxes and insurance	19	156	175
Total expenses	114	476	590
Revenue over certain operating expenses	\$ (113)	\$ 871	\$ 758

(o) FSP Corp. is purchasing the real estate assets and a stated amount of cash (the adjusted cash reserves) from each target REIT in exchange for a fixed number of shares of FSP common stock. The final dividend to the shareholders of the target REITs represents the estimated fair value of the net assets not purchased by FSP Corp. as of the date of the pro forma balance sheet. The estimated final dividend as of the date of the pro forma balance sheet for the target REITs is shown in the following table. The actual final

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dividend will be based upon the fair market value of the net assets not purchased as of the actual merger date.

Montague	\$1,065
Addison	2,058
Royal Ridge	1,569
Collins	1,329

Total	\$6,021
	=====

- (p) The cumulative unbilled straight-line rents of the target REITs will be eliminated at acquisition.
- (q) The cumulative deficit of the target REITs will be eliminated at acquisition.

F-121

FRANKLIN STREET PROPERTIES CORP.
 NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
 (Unaudited)

- (r) The following table combines the historical cash flows for the target REITs for the nine months ended September 30, 2004.

(in thousands)	Montague	Addison	Ro

Cash flows from operating activities:			
Net income	\$ 1,861	\$ 3,288	\$
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization expense	282	1,136	
Amortization of favorable leases	872	--	
Changes in operating assets and liabilities:			
Restricted cash	--	15	
Tenant rent receivables	--	24	
Step rent receivable	(69)	(110)	
Prepaid expenses and other assets	(8)	(48)	
Accounts payable and accrued expenses	54	(361)	
Tenant security deposits	--	(15)	
Payment of deferred leasing commissions	--	(329)	
Net cash provided by (used for) operating activities	2,992	3,600	

Cash flows from investing activities:			
Purchase of real estate assets and related leases, office computers and furniture, capitalized merger costs	--	(217)	
Net cash provided by (used for) investing activities	--	(217)	

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Cash flows from financing activities:			
Distributions to stockholders	(2,953)	(3,857)	(

Net cash provided by (used for) financing activities	(2,953)	(3,857)	(

Net increase (decrease) in cash and cash equivalents	39	(474)	
Cash and cash equivalents, beginning of period	3,594	5,966	

Cash and cash equivalents, end of period	\$ 3,633	\$ 5,492	\$
=====			

F-122

FRANKLIN STREET PROPERTIES CORP.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

(s) The following table combines the historical cash flows for the target REITs for the year ended December 31, 2003.

(in thousands)	Montague	Addison	Roya

Cash flows from operating activities:			
Net income (loss)	\$ 2,669	\$ 4,005	\$ (9
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Depreciation and amortization expense	368	1,497	5
Amortization of above market lease	1,164	--	4
Changes in operating assets and liabilities:			
Restricted cash	--	9	(5
Tenant rent receivables, net	--	(25)	
Straight-line rents, net	(262)	(322)	(9
Prepaid expenses and other assets, net	377	112	(1,0
Accounts payable and accrued expenses	383	165	2
Tenant security deposits	--	(9)	
Payment of deferred leasing commissions	--	(39)	

Net cash provided by (used for) operating activities	4,699	5,393	(2,3

Cash flows from investing activities:			
Purchase of real estate assets and related leases, office computers and furniture, capitalized merger costs	(355)	(25)	(22,3

Net cash provided by (used for) investing activities	(355)	(25)	(22,3

Cash flows from financing activities:			
Proceeds from sale of company stock, net	--	--	27,2

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Distributions to stockholders	(3,714)	(4,721)	(1,3

Net cash provided by (used for) financing activities	(3,714)	(4,721)	25,8

Net increase in cash and cash equivalents	630	647	1,2
Cash and cash equivalents, beginning of period	957	2,683	

Cash and cash equivalents, end of period	\$ 1,587	\$ 3,330	\$ 1,2
=====			
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	\$ --	\$ --	\$ 1,7
Non-cash investing and financing activities:			
Dividends declared but not paid	\$ 960	\$ 1,265	\$ 5

F-123

COMPARATIVE PER SHARE DATA

The following tables present on a per share basis:

(a) Basic and diluted net income book value, and dividends declared for FSP Corp. and each of the target REITs on a historical basis.

(b) Consolidated pro forma basic and diluted net income per share, book value per share and dividends per share for FSP Corp. This table shows the effect of the mergers from the perspective of an owner of one share of FSP common stock.

(c) Equivalent pro forma basic and diluted net income per share, equivalent pro forma book value per share and equivalent pro forma dividends per share for each of the target REITs. This table shows the effect of the mergers from the perspective of an owner of one share of stock of a target REIT. The consolidated pro forma data are multiplied by the number of shares of FSP common stock issuable in exchange for each share of target stock, also known as the exchange ratio, as shown in the following table:

Target REIT	Exchange Ratio
-----	-----
Addison	5,948.67
Collins Crossing	6,167.63
Montague	5,649.72
Royal Ridge	6,055.79

The pro forma financial data and equivalent pro forma data are unaudited and are not necessarily indicative of the operating results that would have been achieved had the mergers occurred as of the beginning of the period and should not be construed as representative of future operations.

FSP Corp. calculates historical book value per share by dividing stockholders' equity by the number of shares of common stock (or preferred stock, in the case of the target REITs) outstanding at the end of each period.

FSP Corp. calculates consolidated pro forma net income per share data for FSP Corp. as if the mergers occurred on January 1, 2003 and 2004 and resulted in

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weighted average shares of 60,523,000 and 60,525,000 for the nine months ended September 30, 2004 and for the year ended December 31, 2003, respectively.

FSP Corp. calculates consolidated pro forma book value per share data for FSP Corp. as if the mergers occurred on September 30, 2004 and resulted in an ending number of shares of 60,525,000.

FSP Corp. calculates consolidated pro forma dividends per share by adding the total dividends declared by FSP Corp. plus dividends declared by the target REITs and dividing this sum by 60,525,000 shares, as shown in the following table:

F-124

(in thousands)	Dividends Declared	
	For the Nine Months Ended September 30, 2004	For the Year Ended December 31, 2003
FSP Corp.	\$ 46,152	\$ 46,747
Addison Circle	2,592	5,137
Collins Crossing	2,414	3,350
Montague	1,993	3,771
Royal Ridge	1,078	1,911
Total	\$ 54,229	\$ 60,916

FSP Corp. calculates equivalent pro forma net income per share for each target REIT by multiplying the consolidated pro forma net income per share by the exchange ratio.

FSP Corp. calculates equivalent pro forma book value per share for each target REIT by multiplying the consolidated pro forma book value per share by the exchange ratio.

FSP Corp. calculates equivalent pro forma dividends per share for each target REIT by multiplying the consolidated pro forma dividends per share by the exchange ratio.

F-125

For the purposes of the consolidated pro forma net income per share and book value per share data, FSP Corp.'s historical financial data have been consolidated with the target REITs' financial data.

Franklin Street Properties
Comparative Per Share Data
As of and for the nine months ended
September 30, 2004
(unaudited)

	Historical	Pro forma Consolidated	Pro forma Equivalent
Net income (loss) per share			

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basic and diluted			
FSP Corp.	\$ 0.68	\$ 0.68	\$ --
Montague	5,572	--	3,842
Addison Circle	5,170	--	4,045
Royal Ridge	3,166	--	4,118
Collins Crossing	3,798	--	4,194
Book value per share			
FSP Corp.	\$ 10.17	\$ 10.92	--
Montague	80,680	--	61,695
Addison Circle	84,918	--	64,959
Royal Ridge	81,536	--	66,129
Collins Crossing	83,054	--	67,351
Dividends declared per share			
FSP Corp.	\$ 0.93	\$ 0.90	--
Montague	5,967	--	5,085
Addison Circle	4,077	--	5,354
Royal Ridge	5,554	--	5,450
Collins Crossing	4,350	--	5,551

F-126

Franklin Street Properties Corp.
Comparative Per Share Data
As of and for the year ended
December 31, 2003
(unaudited)

	Historical	Pro forma Consolidated	Pro forma Equivalent
Net income (loss) per share			
basic and diluted			
FSP Corp.	\$ 1.18	\$ 0.83	\$ --
Montague	7,991	--	4,689
Addison Circle	6,297	--	4,937
Royal Ridge	(3,267)	--	5,026
Collins Crossing	(2,431)	--	5,119
Book value per share			
FSP Corp.	\$ 10.41	\$ --	\$ --
Montague	81,075	--	--
Addison Circle	83,824	--	--
Royal Ridge	81,997	--	--
Collins Crossing	83,605	--	--
Dividends declared per share			
FSP Corp.	\$ 1.36	\$ 1.01	\$ --
Montague	11,290	--	5,706
Addison Circle	8,077	--	6,008
Royal Ridge	6,424	--	6,116
Collins Crossing	6,036	--	6,229

F-127

SIGNATURE

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 hereunto duly authorized.

Date: November 18, 2004

REGISTRANT

FRANKLIN STREET PROPERTIES CORP.

By: /s/ George J. Carter

George J. Carter
President and Chief Executive Officer