FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-Q
April 29, 2008

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

FORM 10 - Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008.

OR

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

Commission File Number: 001-32470

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

Maryland	04-3578653
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

401 Edgewater Place, Suite 200
Wakefield, MA 01880-6210
(Address of principal executive offices)(Zip Code)

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

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

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

YES x NO o

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

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

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

YES o NO x

The number of shares of common stock outstanding as of April 25, 2008 was 70,480,705.

Franklin Street Properties Corp.

Form 10-Q

Quarterly Report
March 31, 2008

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Franklin Street Properties Corp.
Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and par value amounts)	March 31, 2008	December 31, 2007
Assets:		
Real estate assets:		
Land	$ 99,140	$ 99,140
Buildings and improvements	745,488	743,027
Fixtures and equipment	219	212
	844,847	842,379
Less accumulated depreciation	57,449	52,060
Real estate assets, net	787,398	790,319
Acquired real estate leases, less accumulated amortization of $25,801 and $23,401, respectively	30,826	33,695
Investment in non-consolidated REITs	86,235	85,663
Assets held for syndication, net	24,593	26,310
Cash and cash equivalents	32,227	46,988
Restricted cash	336	336
Tenant rent receivables, less allowance for doubtful accounts of $509 and $430, respectively	1,694	1,472
Straight-line rent receivable, less allowance for doubtful accounts of $261 and $261, respectively	7,638	7,387
Prepaid expenses	1,654	1,395
Other assets	1,540	406
Office computers and furniture, net of accumulated depreciation of $1,002 and $968, respectively	340	309
Deferred leasing commissions, net of accumulated amortization of $2,290, and $1,975, respectively	9,581	9,186
Total assets	$ 984,062	$ 1,003,466
Liabilities and Stockholders' Equity:		
Liabilities:		
Bank note payable	$ 84,750	$ 84,750
Accounts payable and accrued expenses	16,633	20,255
Accrued compensation	415	1,564
Tenant security deposits	1,923	1,874
Acquired unfavorable real estate leases, less accumulated amortization of $1,424, and $1,226, respectively	4,186	4,405

Total liabilities		107,907		112,848
Commitments and contingencies				
Stockholders’ Equity:				
Preferred stock, $.0001 par value, 20,000,000 shares authorized, none issued or outstanding		-		-
Common stock, $.0001 par value, 180,000,000 shares authorized, 70,480,705 and 70,480,705 shares issued and outstanding, respectively		7		7
Additional paid-in capital		889,019		889,019
Earnings (distributions) in excess of accumulated earnings/distributions		(12,871)		1,592
Total stockholders’ equity		876,155		890,618
Total liabilities and stockholders’ equity	$	984,062	$	1,003,466

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

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

(in thousands, except per share amounts)	For the Three Months Ended March 31, 2008	2007
Revenue:		
Rental	$ 26,656	$ 25,104
Related party revenue:		
Syndication fees	205	2,956
Transaction fees	168	3,081
Management fees and interest income from loans	561	1,817
Other	20	38
Total revenue	27,610	32,996
Expenses:		
Real estate operating expenses	6,699	6,207
Real estate taxes and insurance	4,279	4,168
Depreciation and amortization	7,359	7,177
Selling, general and administrative	2,009	1,888
Commissions	158	1,559
Interest	1,192	2,676
Total expenses	21,696	23,675
Income before interest income, equity in earnings (losses) of non-consolidated REITs and taxes on income	5,914	9,321
Interest income	303	653
Equity in earnings (losses) of non-consolidated REITs	793	(616)
Income before taxes	7,010	9,358
Income tax (benefit) expense	(376)	295
Income from continuing operations	7,386	9,063
Income from discontinued operations	-	669
Net income	$ 7,386	$ 9,732
Weighted average number of shares outstanding, basic and diluted	70,481	70,766
Earnings per share, basic and diluted, attributable to:		
Continuing operations	$ 0.10	$ 0.13
Discontinued operations	-	0.01
Net income per share, basic and diluted	$ 0.10	$ 0.14

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

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

(in thousands)	For the Three Months Ended March 31, 2008	2007
Cash flows from operating activities:		
Net income	$ 7,386	$ 9,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	7,371	7,666
Amortization of above market lease	1,139	1,334
Equity in earnings (losses) from non-consolidated REITs	(793)	583
Distributions from non-consolidated REITs	546	281
Increase in bad debt reserve	79	-
Changes in operating assets and liabilities:		
Restricted cash	-	79
Tenant rent receivables, net	(301)	503
Straight-line rents, net	(251)	(1,273)
Prepaid expenses and other assets, net	(376)	755
Accounts payable and accrued expenses	(4,379)	(1,856)
Accrued compensation	(1,148)	(1,388)
Tenant security deposits	49	(90)
Payment of deferred leasing commissions	(818)	(661)
Net cash provided by operating activities	8,504	15,665
Cash flows from investing activities:		
Purchase of real estate assets, office computers and furniture, capitalized merger costs	(1,777)	(9,327)
Other assets	-	(9)
Investment in loan receivable	(1,000)	-
Redemption of (investment in) certificate of deposit	-	(37)
Investment in assets held for syndication, net	1,391	(121,431)
Proceeds received on sales of real estate assets	-	5,830
Net cash used in investing activities	(1,386)	(124,974)
Cash flows from financing activities:		
Distributions to stockholders	(21,849)	(21,938)
Repayments under bank note payable	-	130,000
Deferred financing costs	(30)	-
Net cash (used in) provided by financing activities	(21,879)	108,062
Net decrease in cash and cash equivalents	(14,761)	(1,247)

Cash and cash equivalents, beginning of period		46,988		69,973
Cash and cash equivalents, end of period	$	32,227	$	68,726
Non-cash investing and financing activities:				
Accrued costs for purchase of real estate assets	$	2,369	$	2,042
Deposits on investments in assets held for syndication	$	-	$	5,010

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

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Franklin Street Properties Corp.

Notes to Consolidated Financial Statements
(Unaudited)

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

Organization

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

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

The Company owns and operates a portfolio of real estate, which consisted of 26 properties as of March 31, 2008. From time-to-time the Company may acquire real estate or invest in real estate by purchasing shares of preferred stock offered in syndications of Sponsored REITs. The Company may also pursue, on a selective basis, the sale of its properties in order to take advantage of the value creation and demand for its properties, or for geographic or property specific reasons.

Properties

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

	As of March 31,	
	2008	2007
Commercial real estate:		
Number of properties	26	25
Square feet	4,997,128	4,672,475

Basis of Presentation

The unaudited consolidated financial statements of the Company include all the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2007, as filed with the Securities and Exchange Commission.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with generally accepted accounting principles (”GAAP”) in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Operating results for the three months ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or for any other period.

Reclassifications

Certain amounts from the 2007 income statement have been reclassified to conform to the 2008 presentation. The reclassification primarily reflected a state tax on gross receipts as an income tax, which is further described in the income tax footnote. The reclassification changed the amount of real estate taxes and insurance and income taxes presented on the Company's 2007 income statement. There was no change to net income as a result of this reclassification.

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

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

Recent Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this standard has not had a material impact on the Company's financial position, operations or cash flow.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of this standard has not had a material impact the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, which establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree and goodwill acquired in a business combination. SFAS No. 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing the potential impact that the adoption of SFAS No. 141(R) will have on our financial position, results of operations or cash flows.

2. Investment Banking/Investment Services Activity

During the three months ended March 31, 2008, the Company sold on a best efforts basis, through private placements, preferred stock in the following Sponsored REIT:

Sponsored REIT	Property Location	Gross Proceeds (in thousands)1
FSP Grand Boulevard Corp.	Kansas City, MO	$ 2,675
	Total	$ 2,675

1. The syndication of FSP Grand Boulevard Corp. ("Grand Bouelvard"), which commenced in September 2007, was not complete at March 31, 2008.

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

Investment in Sponsored REITs:

At March 31, 2008, the Company held an interest in twelve Sponsored REITs. Eleven were fully syndicated and the Company no longer derives economic benefits or risks from the common stock interest that is retained in them. The Company holds a preferred stock investment in three of these Sponsored REITs, FSP Park Ten Development Corp. ("Park Ten Development"), FSP Phoenix Tower Corp. ("Phoenix Tower") and FSP 303 East Wacker Drive Corp. ("East Wacker"), from which it continues to derive economic benefits and risks. The remaining entity that was not fully syndicated at March 31, 2008, Grand Boulevard has a carrying cost of approximately $24.6 million on the accompanying consolidated balance sheets and is classified as assets held for syndication.

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

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

The table below shows the Company's share of revenues and expenses from Sponsored REITs prior to consolidation. Management fees of $18,000 and interest expense on acquisition loans made by the Company to Sponsored REITs for the three months ended March 31, 2007 are eliminated in consolidation.

(in thousands)	Three Months Ended March 31, 2007
Operating Data:	
Rental revenues	$ 2,079
Operating and maintenance expenses	(1,102)
Depreciation and amortization	(442)
Interest expense	(992)
Interest income	39
	$ (418)

Equity in earnings (losses) of investment in non-consolidated REITs:

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

(in thousands)	Three Months Ended March 31, 2008	2007
Equity in earnings (losses) of Sponsored REITs	$ 59	$ (666)
Equity in earnings (losses) of Park Ten Development	10	(7)
Equity in earnings of Phoenix Tower	36	57
Equity in earnings of East Wacker	688	-
	$ 793	$ (616)

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

Equity in earnings (losses) of Park Ten Development is derived from the Company's preferred stock investment in the entity. In September 2005 the Company acquired 8.5 preferred shares or 3.05% of the authorized preferred shares of Park Ten Development via a non-monetary exchange of land valued at $850,000.

Equity in earnings of Phoenix Tower is derived from the Company's preferred stock investment in the entity. In September 2006, the Company purchased 48 preferred shares or 4.6% of the outstanding preferred shares of Phoenix

Tower for $4,116,000 (which represented $4,800,000 at the offering price net of commissions of $384,000 and fees of $300,000 that were excluded).

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

The Company recorded distributions declared of $546,000 and $281,000 from Sponsored REITs during the three months ended March 31, 2008 and 2007, respectively.

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

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

Non-consolidated REITs:

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

The operating data below for 2008 includes operations of the twelve Sponsored REITs the Company held an interest in as of March 31, 2008. The operating data for 2007 includes operations of the eleven Sponsored REITs the Company held an interest in as of March 31, 2007.

At March 31, 2008, December 31, 2007 and March 31, 2007, the Company had ownership interests in twelve, twelve and eleven Sponsored REITs, respectively. Summarized financial information for these Sponsored REITs is as follows:

(in thousands)	March 31, 2008	December 31, 2007
Balance Sheet Data (unaudited):		
Real estate, net	$ 681,099	$ 684,441
Other assets	90,459	96,180
Total liabilities	(193,186)	(202,757)
Shareholders' equity	$ 578,372	$ 577,864

	For the Three Months Ended March 31,	
(in thousands)	2008	2007
Operating Data (unaudited):		
Rental revenues	$ 26,654	$ 22,099
Other revenues	644	781
Operating and maintenance expenses	(12,805)	(10,735)
Depreciation and amortization	(6,074)	(4,339)
Interest expense	(2,472)	(7,017)

Net income	$	5,947	$	789

Syndication fees and Transaction fees:

The Company provides syndication and real estate acquisition advisory services for Sponsored REITs. Syndication and transaction fees from non-consolidated entities amounted to approximately $373,000 and $6,037,000 for the three months ended March 31, 2008 and 2007, respectively.

Management fees and interest income from loans:

Asset management fees range from 1% to 5% of collected rents and the applicable contracts are cancelable with 30 days notice. Asset management fee income from non-consolidated entities amounted to approximately $240,000 and $228,000 for the three months ended March 31, 2008 and 2007, respectively. The Company typically makes interim mortgage loans to Sponsored REITs that enable Sponsored REITs to acquire their respective properties prior to the consummation of the offerings of their equity interests. The interim mortgage loans are subsequently repaid out of offering proceeds.

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

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

In December 2007, the Company entered into a secured promissory note for a revolving line of credit (the “Revolver”) for up to $5.5 million with a Sponsored REIT, FSP Highland Place I Corp., that owns an office building in Englewood, Colorado, of which $1.0 million was drawn in March 2008. The balance of this loan is classified in other assets. Advances under the Revolver bear interest at a rate equal to the 30 day LIBOR rate plus 200 basis points. The Revolver was made for the purpose of funding capital expenditures and other costs of leasing. The Company anticipates that any advances made under the Revolver will be repaid at its maturity on December 31, 2010 or earlier from long-term financing of the property, cash flows from the property or a capital event.

The Company recognized interest income from interim mortgage loans and advances on the Revolver of approximately $321,000 and $1,589,000 for the three months ended March 31, 2008 and 2007, respectively, relating to these loans.

4. Bank Note Payable

The Company has a revolving line of credit agreement (the "Loan Agreement") with a group of banks providing for borrowings at the Company’s election of up to $250,000,000, which matures on August 11, 2011. Borrowings under the line of credit bear interest at either the bank's prime rate (5.25% at March 31, 2008) or a rate equal to LIBOR plus 100 basis points (3.7% at March 31, 2008). There were borrowings of $84,750,000 at the LIBOR plus 100 basis point rate at a weighted average rate of 4.8% and 6.2% outstanding under the line of credit at March 31, 2008 and December 31, 2007, respectively. The weighted average interest rate on amounts outstanding during the three months ended March 31, 2008 and 2007 was approximately 4.77% and 6.57%, respectively; and for the year ended December 31, 2007 was approximately 6.51%.

The Loan Agreement includes restrictions on property liens and requires compliance with various financial covenants. Financial covenants include the maintenance of at least $1,500,000 in operating cash accounts, a minimum unencumbered cash and liquid investments balance and tangible net worth; limitations on permitted secured debt and compliance with various debt and operating income ratios, as defined in the Loan Agreement. The Company was in compliance with the Loan Agreement's financial covenants as of March 31, 2008 and December 31, 2007. Borrowings under the Loan Agreement mature on August 11, 2011.

5. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of Company shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at March 31, 2008 and 2007.

6. Discontinued Operations

During 2007, the Company sold five properties. Accordingly, each of the five properties sold are classified as discontinued operations on our financial statements. Income from discontinued operations was approximately $669,000 for the three months ended March 31, 2007.

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

(in thousands)	For the Three Months Ended March 31, 2007
Rental revenue	$ 1,880
Rental operating expenses	(473)
Real estate taxes and insurance	(258)
Depreciation and amortization	(480)
Net income from discontinued operations	$ 669

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

7. Business Segments

The Company operates in two business segments: real estate operations (including real estate leasing, interest income on interim acquisition and other financing and asset/property management) including discontinued operations and investment banking/investment services (including real estate acquisition, development services and broker/dealer services). The Company has identified these segments because this information is the basis upon which management makes decisions regarding resource allocation and performance assessment. The accounting policies of the reportable segments are the same as those described in the "Significant Accounting Policies" in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2007. The Company's operations are located in the United States of America.

The Company evaluates the performance of its reportable segments based on Funds From Operations ("FFO") as management believes that FFO represents the most accurate measure of the reportable segment's activity and is the basis for distributions paid to equity holders. The Company defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments to exclude non-cash income (or losses) from non-consolidated or Sponsored REITs, plus distributions received from non-consolidated or Sponsored REITs.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP), as an indicator of the Company's financial performance, nor as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs. Other real estate companies may define this term in a different manner. We believe that in order to facilitate a clear understanding of the results of the Company, FFO should be examined in connection with net income and cash flows from operating, investing and financing activities in the consolidated financial statements.

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

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
Three Months Ended March 31, 2008			
Net Income	$ 7,874	$ (488)	$ 7,386
Equity in income of non-consolidated REITs	(793)	-	(793)
Distributions from non-consolidated REITs	546	-	546
Depreciation and amortization	8,464	34	8,498
Funds From Operations	$ 16,091	$ (454)	$ 15,637
Three Months Ended March 31, 2007			
Net Income	$ 6,548	$ 3,184	$ 9,732
Equity in income (losses) of non-consolidated REITs	583	-	583

Distributions from non-consolidated REITs	281	-	281
Depreciation and amortization	8,960	30	8,990
Funds From Operations	$ 16,372	$ 3,214	$ 19,586

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

7. Business Segments (continued)

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

(in thousands)	Real Estate Operations	Investment Banking/ Investment Services	Total
March 31, 2008:			
Revenue	$ 27,237	$ 373	$ 27,610
Interest income	292	11	303
Interest expense	1,192	-	1,192
Capital expenditures	(2,477)	(56)	(2,533)
Identifiable assets	$ 979,467	$ 4,595	$ 984,062
March 31, 2007:			
Revenue	$ 26,960	$ 6,037	$ 32,997
Interest income	645	8	653
Interest expense	2,676	-	2,676
Capital expenditures	(2,854)	-	(2,854)
Identifiable assets	$ 1,056,974	$ 6,098	$ 1,063,072

8. Cash Dividends

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

Quarter Paid	Dividends Per Share	Total Dividends
First quarter of 2008	$ .31	$ 21,849
First quarter of 2007	$ .31	$ 21,938

9. Income Taxes

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

One such restriction is that the Company generally cannot own more than 10% of the voting power or value of the securities of any one issuer unless the issuer is itself a REIT or a taxable REIT subsidiary (“TRS”). In the case of TRSs, the Company’s ownership of securities in all TRSs generally cannot exceed 20% of the value of all of the Company’s assets and, when considered together with other non-real estate assets, cannot exceed 25% of the value of all of the Company’s assets. FSP Investments LLC and FSP Protective TRS Corp, which are subsidiaries of the Company, are TRSs and operate as a taxable corporation under the Code and have accounted for income taxes in accordance with the provisions of SFAS No. 109, Accounting for Income Taxes.

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

9. Income Taxes (continued)

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

The Company follows the provisions of Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), which did not result in recording a liability or recognition of any accrued interest or penalties. Accrued interest and penalties will be recorded as income tax expense, if the Company records a liability in the future. The Company's effective tax rate was not affected by the adoption of FIN 48. The Company and one or more of its subsidiaries files income tax returns in the U.S federal jurisdiction and various state jurisdictions. The statute of limitations for the Company's income tax returns is generally three years and as such, the Company's returns that remain subject to examination would be primarily from 2004 and thereafter.

The income tax expense reflected in the consolidated statements of income related to the TRS was a tax benefit of $433,000 for the three months ended March 31, 2008 and tax expense of $240,000 for the three months ended March 31, 2007. The expense differs from the amounts computed by applying the Federal statutory rate of 34% to income before income taxes as follows:

(in thousands)	For the Three Months Ended March 31, 2008		For the Three Months Ended March 31, 2007	
Federal income tax expense (credit) at statutory rate	$	(365)	$	203
Increase in taxes resulting from:				
State income taxes (credit), net of federal impact		(68)		37
Revised Texas Franchise Tax		57		55
	$	(376)	$	295

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

In May 2006, the State of Texas enacted a new business tax (the "Revised Texas Franchise Tax") that replaced its existing franchise tax, which the Company became subject to. The Revised Texas Franchise Tax is a tax at a rate of approximately 0.7% of revenues at Texas properties commencing with 2007 revenues. Some of the Company's leases allow reimbursement by tenants for these amounts because the Revised Texas Franchise Tax replaces a portion of property tax for school districts. Because the tax base on the Texas margin tax is derived from an income based measure it is considered an income tax and is accounted for in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." The Company recorded a provision in income taxes on its income statement of $57,000 and $55,000 for the three months ended March 31, 2008 and 2007, respectively.

10. Subsequent Events

The Company declared a cash distribution of $0.31 per share on April 18, 2008 to stockholders of record on April 30, 2008 payable on May 20, 2008.

On April 28, 2008, Park Ten Development informed the Company that the requisite number of holders of its preferred stock had voted to approve the Company’s acquisition of Park Ten Development by merger. The Company expects to consummate the transaction on or about May 15, 2008.

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2007. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as necessarily indicative of future operations. The following discussion and other parts of this Quarterly Report on Form 10-Q may also contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, including without limitation disruptions in the debt market, changes in economic conditions in the markets in which we own properties, changes in the demand by investors for investment in Sponsored REITs, risks of a lessening of demand for the types of real estate owned by us, changes in government regulations, and expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs, additional staffing, insurance increases and real estate tax valuation reassessments. See the factors set forth below under the caption, Item 1A. "Risk Factors". Although we believe the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We may not update any of the forward-looking statements after the date this Quarterly Report on Form 10-Q is filed to conform them to actual results or to changes in our expectations that occur after such date, other than as required by law.

Overview

FSP Corp. or the Company, operates in two business segments: real estate operations and investment banking/investment services. The real estate operations segment involves real estate rental operations, leasing, secured financing of real estate for interim acquisition or other property financing, and services provided for asset management, property management, property acquisitions, dispositions and development. The investment banking/investment services segment involves the structuring of real estate investments and broker/dealer services that include the organization of Sponsored REITs, the acquisition and development of real estate on behalf of Sponsored REITs and the raising of capital to equitize the Sponsore