

FRANKLIN STREET PROPERTIES CORP /MA/  
Form 10-K  
February 18, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2013

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

For the transition period from            to

Commission File No. 001-32470

**FRANKLIN STREET PROPERTIES CORP.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**04-3578653**  
(I.R.S. Employer  
Identification No.)

**401 Edgewater Place, Suite 200, Wakefield, Massachusetts**  
(Address of principal executive offices)

**01880**  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class:</b>	<b>Name of each exchange on which registered:</b>
Common Stock, \$.0001 par value per share	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x.

The aggregate market value of the voting and non-voting common equity held by non-affiliates based on the closing sale price as reported on NYSE MKT, as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2013, was approximately \$1,189,629,087.

There were 100,187,405 shares of common stock of the registrant outstanding as of February 14, 2014.

Documents incorporated by reference: The registrant intends to file a definitive proxy statement pursuant to Regulation 14A, promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the registrant's Annual Meeting of Stockholders to be held on May 15, 2014 (the Proxy Statement). The information required in response to Items 10-14 of Part III of this Form 10-K, other than that contained in Part I under the caption, Directors and Executive Officers of FSP Corp., is hereby incorporated by reference to the Proxy Statement.

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**PART I**

**Item 1. Business**

History

Our company, Franklin Street Properties Corp., which we refer to as FSP Corp., the Company, we or our, is a Maryland corporation that operates in a manner intended to qualify as a real estate investment trust, or REIT, for federal income tax purposes. Our common stock is traded on the NYSE MKT under the symbol FSP . FSP Corp. is the successor to Franklin Street Partners Limited Partnership, or the FSP Partnership, which was originally formed as a Massachusetts general partnership in January 1997 as the successor to a Massachusetts general partnership that was formed in 1981. On January 1, 2002, the FSP Partnership converted into FSP Corp., which we refer to as the conversion. As a result of this conversion, the FSP Partnership ceased to exist and we succeeded to the business of the FSP Partnership. In the conversion, each unit of both general and limited partnership interests in the FSP Partnership was converted into one share of our common stock. As a result of the conversion, we hold, directly and indirectly, 100% of the interest in three former subsidiaries of the FSP Partnership: FSP Investments LLC, FSP Property Management LLC, and FSP Holdings LLC. We operate some of our business through these subsidiaries.

Our Business

We are a REIT focused on commercial real estate investments primarily in office markets and currently operate in only one segment: real estate operations. The principal revenue sources for our real estate operations include rental income from real estate leasing, interest income from secured loans made on office properties and fee income from asset/property management.

Previously we also operated in an investment banking segment, which was discontinued in December 2011. Our investment banking segment generated brokerage commissions, loan origination fees, development services and other fees related to the organization of single-purpose entities that own real estate and the private placement of equity in those entities. We refer to these entities which are organized as corporations and operated in a manner intended to qualify as REITs, as Sponsored REITs. On December 15, 2011, we announced that our broker/dealer subsidiary, FSP Investments LLC, would no longer sponsor the syndication of shares of preferred stock in newly-formed 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.

From time-to-time we may acquire real estate or invest in real estate by making secured loans on real estate or by acquiring our Sponsored REITs, although we have no legal or any other enforceable obligation to acquire or to offer to acquire any Sponsored REIT. We may also pursue on a selective basis the sale of our properties to take advantage of the value creation and demand for our properties, or for geographic or property specific reasons.

*Real Estate*

We own and operate a portfolio of real estate consisting of 39 office properties as of December 31, 2013. We derive rental revenue from income paid to us by tenants of these properties. See Item 2 of this Annual Report on Form 10-K for more information about our properties. From time-to-time we dispose of properties generating gains or losses in an ongoing effort to improve and upgrade our portfolio. We also held preferred stock investments in two Sponsored REITs as of December 31, 2013, from which we record our share of income or loss under the equity method of accounting, and from which we receive dividends.

We provide asset management, property management, property accounting, investor and/or development services to our portfolio and certain of our Sponsored REITs through our subsidiaries FSP Investments LLC and FSP Property Management LLC. FSP Corp. recognizes revenue from its receipt of fee income from Sponsored REITs that have not been consolidated or acquired by us. Neither FSP Investments LLC nor FSP Property Management LLC receives any rental income.

From time-to-time we may make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that these loans will be repaid at their maturity or earlier from long-term financings of the underlying

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properties, cash flows from the underlying properties or some other capital event. We refer to these loans as Sponsored REIT Loans. We have six Sponsored REIT Loans secured by real estate outstanding as of December 31, 2013, from which we derive interest income.

Investment Objectives

Our investment objectives are to create shareholder value by increasing revenue from rental, dividend and interest income and net gains from sales of properties and increase the cash available for distribution in the form of dividends to our stockholders. We expect that we will continue to derive real estate revenue from Sponsored REIT Loans and fees from asset management, property management and investor services. We may also acquire additional real properties by direct purchase or by acquisition of Sponsored REITs, though we have no obligation to acquire or offer to acquire any Sponsored REIT in the future.

From time to time, as market conditions warrant, we may sell properties owned by us. We sold one office property located in Richardson, Texas on October 29, 2013 at a gain and one office property located in Southfield, Michigan on December 21, 2012 at a loss. We sold one industrial property located in Savage, Maryland on June 24, 2011, and one office property located in Falls Church, Virginia on January 21, 2011, each at a gain. When we sell a property, we either distribute some or all of the sale proceeds to our stockholders as a distribution or retain some or all of such proceeds for investment in real properties or other corporate activities.

We may acquire, and have acquired, real properties in any geographic area of the United States and of any property type. We own 39 properties that are located in 13 different states. See Item 2 of this Annual Report on Form 10-K for more information about our properties.

We rely on the following principles in selecting real properties for acquisition by FSP Corp. and managing them after acquisition:

- we seek to buy or develop investment properties at a price which produces value for investors and avoid overpaying for real estate merely to outbid competitors;
- we seek to buy or develop properties in excellent locations with substantial infrastructure in place around them and avoid investing in locations where the future construction of such infrastructure is speculative;
- we seek to buy or develop properties that are well-constructed and designed to appeal to a broad base of users and avoid properties where quality has been sacrificed for cost savings in construction or which appeal only to a narrow group of users;
- we aggressively manage, maintain and upgrade our properties and refuse to neglect or undercapitalize management, maintenance and capital improvement programs; and
- we believe that we have the ability to hold properties through down cycles because we generally do not have significant leverage on the Company, which could place the properties at risk of foreclosure. As of February 14, 2014, none of our 39 properties was subject to mortgage debt.

Competition

With respect to our real estate investments, we face competition in each of the markets where our properties are located. In order to establish, maintain or increase the rental revenues for a property, it must be competitive on location, cost and amenities with other buildings of similar use. Some of our competitors may have significantly more resources than we do and may be able to offer more attractive rental rates or services. On the other hand, some of our competitors may be smaller or have less fixed overhead costs, less cash or other resources that make them willing or able to accept lower rents in order to maintain a certain occupancy level. In markets where there is not currently significant existing property competition, our competitors may decide to enter the market and build new buildings to compete with our existing projects or those in a development stage. Our competition is not only with other developers, but also with property users who choose to own their building or a portion of the building in the form of an office condominium. Competitive conditions are affected by larger market forces beyond our control, such as general economic conditions, that may increase competition among landlords for quality tenants, and individual decisions by tenants that are beyond our control.



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Employees

We had 37 employees as of December 31, 2013 and 38 employees as of February 14, 2014.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, and, in accordance therewith, we file reports and other information with the SEC. The reports and other information we file can be inspected and copied at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Such reports and other information may also be obtained from the web site that the SEC maintains at <http://www.sec.gov>. Further information about the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

We make available, free of charge through our website <http://www.franklinstreetproperties.com> our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the SEC.

Reports and other information concerning us may also be obtained electronically through a variety of databases, including, among others, the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) program at <http://www.sec.gov>, Knight-Ridder Information Inc., Federal Filing/Dow Jones and Lexis/Nexis.

We will voluntarily provide paper copies of our filings and code of ethics upon written request received at the address on the cover of this Annual Report on Form 10-K, free of charge.

Table of Contents**Directors and Executive Officers of FSP Corp.**

The following table sets forth the names, ages and positions of all our directors and executive officers as of February 14, 2014.

<b>Name</b>	<b>Age</b>	<b>Position</b>
George J. Carter (6)	65	President, Chief Executive Officer and Director
Barbara J. Fournier (5)	58	Executive Vice President, Chief Operating Officer, Treasurer, Secretary and Director
Janet Prier Notopoulos (4)	66	Executive Vice President and Director
John N. Burke (1) (2) (3) (5) (7)	52	Director
Brian N. Hansen (1) (2) (3) (4) (9)	42	Director
Dennis J. McGillicuddy (1) (4)	72	Director
Georgia Murray (2) (3) (6) (8) (10)	63	Director
Barry Silverstein (1) (5)	80	Director
Jeffery B. Carter	42	Executive Vice President and Chief Investment Officer
Scott H. Carter	42	Executive Vice President, General Counsel and Assistant Secretary
John G. Demeritt	53	Executive Vice President and Chief Financial Officer

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(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

(4) Class I Director

(5) Class II Director

(6) Class III Director

(7) Chair of the Audit Committee

(8) Chair of the Compensation Committee

(9) Chair of the Nominating and Corporate Governance Committee

(10) Lead Independent Director

George J. Carter, age 65, is President, Chief Executive Officer and has been a Director of FSP Corp. since 2002. Mr. Carter is responsible for all aspects of the business of FSP Corp. and its affiliates, with special emphasis on the evaluation, acquisition and structuring of real estate investments. Prior to the conversion, he was President of the general partner of the FSP Partnership (the General Partner) and was responsible for all aspects of the business of the FSP Partnership and its affiliates. From 1992 through 1996 he was President of Boston Financial Securities, Inc. (Boston Financial). Prior to joining Boston Financial, Mr. Carter was owner and developer of Gloucester Dry Dock, a commercial shipyard in Gloucester, Massachusetts. From 1979 to 1988, Mr. Carter served as Managing Director in charge of marketing at First Winthrop Corporation, a national real estate and investment banking firm headquartered in Boston, Massachusetts. Prior to that, he held a

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number of positions in the brokerage industry including those with Merrill Lynch & Co. and Loeb Rhodes & Co. Mr. Carter is a graduate of the University of Miami (B.S.). Mr. Carter is a FINRA General Securities Principal (Series 24) and holds a FINRA Series 7 general securities license and a FINRA Series 79, Investment Banker Registration license.

Barbara J. Fournier, age 58, is Executive Vice President, Chief Operating Officer, Treasurer, Secretary and has been a Director of FSP Corp. since 2002. Ms. Fournier has as her primary responsibility, together with Mr. Carter, the management of all operating business affairs of FSP Corp. and its affiliates. Ms. Fournier was the Principal Financial Officer until March 2005. Prior to the conversion, Ms. Fournier was the Vice President, Chief Operating Officer, Treasurer and Secretary of the General Partner. From 1993 through 1996, she was Director of Operations for the private placement division of Boston Financial. Prior to joining Boston Financial, Ms. Fournier served as Director of Operations for Schuparra Securities Corp. and as the Sales Administrator for Weston Financial Group. From 1979 through 1986, Ms. Fournier worked at First Winthrop Corporation in administrative and management capacities; including Office Manager, Securities Operations and Partnership Administration. Ms.

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Fournier attended Northeastern University and the New York Institute of Finance. Ms. Fournier is a member of the NYSE MKT Listed Company Council. Ms. Fournier participates in corporate governance-related continuing education sessions offered by the NYSE affiliate, Corporate Board Member. Ms. Fournier is a FINRA General Securities Principal (Series 24). She also holds other FINRA supervisory licenses including Series 4 and Series 53, and a FINRA Series 7 general securities license, a FINRA Series 99, Operations Professional license and a FINRA Series 79, Investment Banker Registration license.

Janet Prier Notopoulos, age 66, is an Executive Vice President of FSP Corp. and has been a Director of FSP Corp. and President of FSP Property Management since 2002. Ms. Notopoulos has as her primary responsibility the oversight of the management of the real estate assets of FSP Corp. and its affiliates. Prior to the conversion, Ms. Notopoulos was a Vice President of the General Partner. Prior to joining the FSP Partnership in 1997, Ms. Notopoulos was a real estate and marketing consultant for various clients. From 1975 to 1983, she was Vice President of North Coast Properties, Inc., a Boston real estate investment company. Between 1969 and 1973, she was a real estate paralegal at Goodwin, Procter & Hoar. Ms. Notopoulos is a graduate of Wellesley College (B.A.) and the Harvard School of Business Administration (M.B.A).

John N. Burke, age 52, has been a Director of FSP Corp. and Chair of the Audit Committee since June 2004. Mr. Burke is a certified public accountant with approximately 30 years of experience in the practice of public accounting working with both private and publicly traded companies with extensive experience serving clients in the real estate industry. Such experience includes analysis and evaluation of financial reporting, accounting systems, internal controls and audit matters. Mr. Burke has been involved as an advisor on several public offerings, private equity and debt financings and merger and acquisition transactions. Mr. Burke's consulting experience includes a wide range of business planning services. Prior to starting his own firm in 2003, Mr. Burke was a Partner in the Boston office of BDO USA, LLP. Mr. Burke is a member of the American Institute of Certified Public Accountants and the Massachusetts Society of CPAs. Mr. Burke earned an M.S. in Taxation and studied undergraduate accounting and finance at Bentley University.

Brian N. Hansen, age 42, became a Director in November 2012 and Chair of the Nominating and Corporate Governance Committee in October 2013. Mr. Hansen is President and Chief Operating Officer of Confluence Investment Management LLC, a St. Louis based Registered Investment Advisor. Prior to founding Confluence in 2007, Mr. Hansen served as a Managing Director in A.G. Edwards' Financial Institutions & Real Estate Investment Banking practice. While at A.G. Edwards, Mr. Hansen advised a wide variety of Real Estate Investment Trusts on numerous capital markets transactions, including public and private offerings of debt and equity securities as well as the analysis of various merger & acquisition opportunities. Prior to joining A.G. Edwards, Mr. Hansen served as a Manager in Arthur Andersen LLP's Audit & Business Advisory practice. Mr. Hansen serves on the board of a number of non-profit entities and the Investment Committee of the Archdiocese of St. Louis. Mr. Hansen earned his MBA from the Kellogg School of Management at Northwestern University and his Bachelor of Science in Commerce from DePaul University. Mr. Hansen is a Certified Public Accountant.

Dennis J. McGillicuddy, age 72, has been a Director of FSP Corp. since May 2002. Mr. McGillicuddy graduated from the University of Florida with a B.A. degree and from the University of Florida Law School with a J.D. degree. In 1968, Mr. McGillicuddy joined Barry Silverstein in founding Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Mr. McGillicuddy has served on the boards of various charitable organizations. He is currently president of the Board of Trustees of Florida Studio Theater, a professional non-profit theater organization, and he serves as a Co-Chair, together with his wife, of Embracing Our Differences, an annual month-long art exhibit that promotes the values of diversity and inclusion. Mr. McGillicuddy also is a member of the Advisory Board to the Center For Mindfulness In Medicine, Health Care & Society, University of Massachusetts Medical School.

Georgia Murray, age 63, has been a Director of FSP Corp. since April 2005, Chair of the Compensation Committee since October 2006 and Lead Independent Director since February 2014. Ms. Murray is retired from Lend Lease Real Estate Investments, Inc., where she served as a Principal from November 1999 until May 2000. From 1973 through October 1999, Ms. Murray worked at The Boston Financial Group, Inc., serving as Senior Vice President and a Director at times during her tenure. Boston Financial was an affiliate of the Boston Financial Group, Inc.

She is a past Trustee of the Urban Land Institute and a past President of the Multifamily Housing Institute. Ms.

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Murray previously served on the Board of Directors of Capital Crossing Bank. She also serves on the boards of numerous non-profit entities. Ms. Murray is a graduate of Newton College.

Barry Silverstein, age 80, has been a Director of FSP Corp. since May 2002. Mr. Silverstein took his law degree from Yale University in 1957 and subsequently held positions as attorney/officer/director of various privately-held manufacturing companies in Chicago, Illinois. In 1964, he moved to Florida to manage his own portfolio and to teach at the University of Florida Law School. In 1968, Mr. Silverstein became the principal founder and shareholder in Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Since January 2001, Mr. Silverstein has been a private investor.

Jeffrey B. Carter, age 42, is Executive Vice President and Chief Investment Officer of FSP Corp. Mr. Carter was appointed to that position in February 2012. Previously, Mr. Carter served as Senior Vice President and Director of Acquisitions of FSP Corp. from 2005 to 2012 and as Vice President - Acquisitions from 2003 to 2005. Mr. Carter is primarily responsible for developing and implementing the Company's investment strategy, including coordination of acquisitions and dispositions. Prior to joining FSP Corp., Mr. Carter worked in Trust Administration for Northern Trust Bank in Miami, Florida. Mr. Carter is a graduate of Arizona State University (B.A.) and The George Washington University (M.A.). Mr. Carter holds a FINRA Series 7 general securities license and a FINRA Series 79, Investment Banker Registration license. Mr. Carter's father, George J. Carter, serves as President, Chief Executive Officer and a Director of FSP Corp. and Mr. Carter's brother, Scott H. Carter, serves as Executive Vice President, General Counsel and Assistant Secretary of FSP Corp.

Scott H. Carter, age 42, is Executive Vice President, General Counsel and Assistant Secretary of FSP Corp. Mr. Carter has been General Counsel since February 2008. Mr. Carter joined FSP Corp. in October 2005 as Senior Vice President, In-house Counsel and was appointed to the position of Assistant Secretary in May 2006. Mr. Carter has as his primary responsibility the management of all of the legal affairs of FSP Corp. and its affiliates. Prior to joining FSP Corp. in October 2005, Mr. Carter was associated with the law firm of Nixon Peabody LLP, which he originally joined in 1999. At Nixon Peabody LLP, Mr. Carter concentrated his practice on the areas of real estate syndication, acquisitions and finance. Mr. Carter received a Bachelor of Business Administration (B.B.A.) degree in Finance and Marketing and a Juris Doctor (J.D.) degree from the University of Miami. Mr. Carter is admitted to practice law in the Commonwealth of Massachusetts. Mr. Carter's father, George J. Carter, serves as President, Chief Executive Officer and a Director of FSP Corp. and Mr. Carter's brother, Jeffery B. Carter, serves as Executive Vice President and Chief Investment Officer of FSP Corp.

John G. Demeritt, age 53, is Executive Vice President and Chief Financial Officer of FSP Corp. and has been Chief Financial Officer since March 2005. Mr. Demeritt previously served as Senior Vice President, Finance and Principal Accounting Officer since September 2004. Prior to September 2004, Mr. Demeritt was a Manager with Caturano & Company, an independent accounting firm (which later merged with McGladrey) where he focused on Sarbanes Oxley compliance. Previously, from March 2002 to March 2004 he provided consulting services to public and private companies where he focused on SEC filings, evaluation of business processes and acquisition integration. During 2001 and 2002 he was Vice President of Financial Planning & Analysis at Cabot Industrial Trust, a publicly traded real estate investment trust, which was acquired by CalWest in December 2001. From October 1995 to December 2000 he was Controller and Officer of The Meditrust Companies, a publicly traded real estate investment trust (formerly known as the The La Quinta Companies, which was then acquired by the Blackstone Group), where he was involved with a number of merger and financing transactions. Prior to that, from 1986 to 1995 he had financial and accounting responsibilities at three other public companies, and was previously associated with Laventhol & Horwath, an independent accounting firm from 1983 to 1986. Mr. Demeritt is a Certified Public Accountant and holds a Bachelor of Science degree from Babson College.

Each of the above executive officers has been a full-time employee of FSP Corp. for the past five fiscal years.

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George J. Carter, Barbara J. Fournier and Janet Notopoulos is each also a director of each of the following public reporting companies, each of which is a Sponsored REIT: FSP Galleria North Corp.; FSP 50 South Tenth Street Corp.; and FSP 303 East Wacker Drive Corp. Each of these directors holds office in these companies from the time of his or her election until the next annual meeting and until a successor is elected and qualified, or until such director's earlier death, resignation or removal.

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**Item 1A**                    **Risk Factors**

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time-to-time.

**Economic conditions in the United States could have a material adverse impact on our earnings and financial condition.**

Because economic conditions in the United States may affect real estate values, occupancy levels and property income, current and future economic conditions in the United States could have a material adverse impact on our earnings and financial condition. The economy in the United States is continuing to experience a period of limited economic growth, including high levels of unemployment and increased credit risk premiums for a number of market participants. These conditions may continue or worsen in the future. Economic conditions may be affected by numerous factors, including but not limited to, inflation and employment levels, energy prices, slow growth and/or recessionary concerns, changes in currency exchange rates, fiscal policy uncertainty, geopolitical events, changes in government regulations, regulatory uncertainty, the availability of debt and interest rate fluctuations. At this time we cannot predict the extent or duration of any negative impact that the current state of the U.S. economy will have on our earnings and financial condition.

**If a Sponsored REIT defaults on a Sponsored REIT Loan, we may be required to keep a balance outstanding on our unsecured credit facilities or use our cash balance to repay our unsecured credit facilities, which may reduce cash available for distribution to our stockholders or for other corporate purposes.**

From time-to-time, we may draw on our 2012 Credit Facility (as defined in Note 5) or 2013 Term Loan (as defined in Note 5) to make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We refer to these loans as Sponsored REIT Loans. We anticipate that each Sponsored REIT Loan will be repaid at maturity or earlier from long term financing of the property securing the loan, cash flows from that underlying property or some other capital event. If a Sponsored REIT defaults on a Sponsored REIT Loan, the Sponsored REIT could be unable to fully repay the Sponsored REIT Loan and we would have to satisfy our obligation under the 2012 Credit Facility and/or the 2013 Term Loan through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders or for other corporate purposes.

**Our operating results and financial condition could be adversely affected if we are unable to refinance the 2012 Credit Facility or 2013 Term Loan.**

There can be no assurance that we will be able to refinance the revolving line of credit portion of our 2012 Credit Facility upon its maturity on September 27, 2016 (subject to extension until September 27, 2017), the term loan portion of our 2012 Credit Facility upon its maturity on September 27, 2017 or the 2013 Term Loan upon its maturity on August 26, 2020, that any such refinancings would be on terms as favorable as the terms of the 2012 Credit Facility or 2013 Term Loan, or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on the 2012 Credit Facility or the 2013 Term Loan. If we are unable to refinance the 2012 Credit Facility or 2013 Term Loan at maturity or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected.



**Failure to comply with covenants in our 2012 Credit Facility and 2013 Term Loan credit agreements could adversely affect our financial condition.**

Our 2012 Credit Facility and 2013 Term Loan credit agreements contain customary restrictions, requirements and other limitations on our ability to incur indebtedness, including maximum leverage ratios, maximum secured leverage ratios, minimum fixed charge coverage ratios, maximum unencumbered leverage ratios and minimum unsecured debt service coverage ratios, which we must maintain. Our continued ability to borrow under the 2012 Credit Facility and 2013 Term Loan is subject to compliance with our financial and other covenants. Failure to comply with such covenants could cause a default under the 2012 Credit Facility or 2013 Term Loan, and

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we may then be required to repay either or both of them with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms.

We may use the 2012 Credit Facility or 2013 Term Loan to purchase properties directly for our real estate portfolio, to make Sponsored REIT Loans or for other corporate purposes. If we breach covenants in our 2012 Credit Facility or 2013 Term Loan credit agreements, the lenders can declare a default. A default under our 2012 Credit Facility or 2013 Term Loan credit agreements could result in difficulty financing growth in our business and could also result in a reduction in the cash available for distribution to our stockholders or for other corporate purposes. A default under our 2012 Credit Facility or 2013 Term Loan credit agreements could materially and adversely affect our financial condition and results of operations.

**An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets.**

As of December 31, 2013, we had approximately \$306.5 million of indebtedness under the revolving line of credit portion of our 2012 Credit Facility that bears interest at variable rates, and we may incur more of such indebtedness in the future. Borrowings under the revolving line of credit portion of our 2012 Credit Facility may not exceed \$500 million outstanding at any time, although such amount may be increased by up to an additional \$250 million through the exercise of an accordion feature. The term loan portion of our 2012 Credit Facility is for \$400 million. On September 27, 2012, we fixed the base LIBOR rate on the term loan portion of our 2012 Credit Facility at 0.75% for five years by entering into an interest rate swap agreement. The 2013 Term Loan is for \$220 million, although such amount may be increased by up to an additional \$50 million through the exercise of an accordion feature. On August 26, 2013, we fixed the base LIBOR rate on the 2013 Term Loan at 2.32% for seven years by entering into an interest rate swap agreement. In the future, if interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow, our ability to pay principal and interest on our debt and our ability to make distributions to stockholders. In addition, rising interest rates could limit our ability to both incur new debt and to refinance existing debt when it matures. From time to time, we may enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions

**If we are not able to collect sufficient rents from each of our owned real properties, investments in Sponsored REITs or interest on Sponsored REIT Loans we fund, we may suffer significant operating losses or a reduction in cash available for future dividends.**

A substantial portion of our revenue is generated by the rental income of our real properties and investments in Sponsored REITs. If our properties do not provide us with a steady rental income or we do not collect interest income from Sponsored REIT Loans we fund, our revenues will decrease, which may cause us to incur operating losses in the future and reduce the cash available for distribution to our stockholders.

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

Growth in our portfolio of real estate is dependent on the ability of our acquisition executives to find properties for sale and/or development which meet the applicable investment criteria. To the extent they fail to find such properties, we would be unable to increase the size of our portfolio of real estate, which could reduce the cash otherwise available for distribution to our stockholders.

**We are dependent on key personnel.**

We depend on the efforts of George J. Carter, our President and Chief Executive Officer and a Director; Barbara J. Fournier, our Chief Operating Officer, Treasurer, Secretary, an Executive Vice President and a Director; John G. Demeritt, our Chief Financial Officer and an Executive Vice President; Jeffery B. Carter, our Chief

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Investment Officer and an Executive Vice President; Janet Prier Notopoulos, an Executive Vice President and a Director; and Scott H. Carter, our General Counsel, Assistant Secretary and an Executive Vice President. If any of our executive officers were to resign, our operations could be adversely affected. We do not have employment agreements with any of our executive officers.

**Our level of dividends may fluctuate.**

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

**We face risks from tenant defaults or bankruptcies.**

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

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

As of February 14, 2014, we owned 39 properties. Some or all of these properties may decline in value. To the extent our real properties decline in value, our stockholders could lose some or all of the value of their investments. The value of our common stock may be adversely affected if the real properties held by us decline in value since these real properties represent the majority of the tangible assets held by us. Moreover, if we are forced to sell or lease the real property held by us below its initial purchase price or its carrying costs, respectively, or if we are forced to lease real property at below market rates because of the condition of the property, our results of operations would be adversely affected and such negative results of operations may result in lower dividends being paid to holders of our common stock.

**New acquisitions may fail to perform as expected.**

We may acquire new properties by direct FSP Corp. purchase, by acquisition of Sponsored REITs or by acquisition of other entities. We may purchase these properties with cash, by drawing on the revolving line of credit portion of our 2012 Credit Facility, by assuming existing indebtedness, by entering into new indebtedness, by issuing shares of our stock or by other means. During the year ended December 31, 2013, we acquired one property in Georgia and two properties in Colorado. During the year ended December 31, 2012, we acquired one property located in Georgia and one property located in Texas. During the year ended December 31, 2011, we acquired one property in North Carolina, one property in Illinois and three properties in Texas. Newly acquired properties may fail to perform as expected, in which case, our results of operations could be adversely affected.

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

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

- changes in general and local economic conditions;
- the supply or demand for particular types of properties in particular markets;
- changes in market rental rates;
- the impact of environmental protection laws;
- changes in tax, real estate and zoning laws; and
- the impact of obligations and restrictions contained in title-related documents.

Certain significant costs, such as real estate taxes, utilities, insurance and maintenance costs, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate

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levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

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

When leases expire, we may incur expenses and may not be able to re-lease the space on the same terms. While we cannot predict when existing vacancy will be leased or if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, we expect to renew or sign new leases at current market rates for locations in which the buildings are located, which in some cases may be below the expiring rates. Certain leases provide tenants the right to terminate early if they pay a fee. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce distributions to our stockholders. This risk is currently heightened because the economy in the United States is continuing to experience a period of limited economic growth, including high levels of unemployment, the failure and near failure of a number of financial institutions and increased credit risk premiums for a number of market participants. These conditions may continue or worsen in the future. Typical lease terms range from five to ten years, so up to approximately 20% of our rental revenue from commercial properties could be expected to expire each year.

**We face risks of tenant-type concentration.**

As of December 31, 2013, our top twenty tenants leased, based on leased square feet, held approximately 38.4% of the total rentable square feet in our owned portfolio of properties. Approximately 26.0% and 20.02% of our top twenty tenants as a percentage of the top twenty tenants rentable square feet (or 10.1% and 7.7% of the total rentable square feet in our portfolio) operated in the energy services industry and the bank and credit services industry, respectively. An economic downturn in these or any industry in which a high concentration of our tenants operate or in which a significant number of our tenants currently or may in the future operate, could negatively impact the financial condition of such tenants and cause them to fail to make timely rental payments or default on lease obligations, fail to renew their leases or renew their leases on terms less favorable to us, become bankrupt or insolvent, or otherwise become unable to satisfy their obligations to us, which could adversely affect our financial condition and results of operations.

**We face risks from geographic concentration.**

The properties in our portfolio as of December 31, 2013, by aggregate square footage, are distributed geographically as follows: South 42.8%, West 25.0%, Midwest 17.3% and East 14.9%. However, within certain of those regions, we hold a larger concentration of our properties in Greater Denver, Colorado 20.7%, Atlanta, Georgia 14.4%, Dallas, Texas 13.9% and Houston, Texas 12.3%. We are likely to face risks to the extent that any of these areas in which we hold a larger concentration of our properties suffer deteriorating economic conditions.

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

Competition exists in every market in which our properties are currently located and in every market in which properties we may acquire in the future will be located. We compete with, among others, national, regional and numerous local real estate operators and developers. Such

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

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

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

In addition, we cannot assure you that:

- future laws, ordinances or regulations will not impose any material environmental liability;
- proposed legislation to address climate change will not increase utility and other costs of operating our properties which, if not offset by rising rental income and/or paid by tenants, would materially and adversely affect our financial condition and results of operations;
- the current environmental conditions of our properties will not be affected by the condition of properties in the vicinity of such properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us;
- tenants will not violate their leases by introducing hazardous or toxic substances into our properties that could expose us to liability under federal or state environmental laws; or
- environmental conditions, such as the growth of bacteria and toxic mold in heating and ventilation systems or on walls, will not occur at our properties and pose a threat to human health.

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

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

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. Compliance with such requirements may require us to make substantial capital expenditures, which expenditures would reduce cash otherwise available for distribution to our stockholders.



**We face risks associated with our tenants being designated Prohibited Persons by the Office of Foreign Assets Control.**

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury, or OFAC, maintains a list of persons designated as terrorists or who are otherwise blocked or banned, which we refer to as Prohibited Persons. OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons (the OFAC Requirements ). Our current leases and certain other agreements require the other party to comply with the OFAC Requirements. If a tenant or other party with whom we contract is placed on the OFAC list we may be required by the OFAC Requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

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**Security breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer.**

In the ordinary course of our business, we collect and store sensitive data concerning investors in the Sponsored REITS, tenants and vendors. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings and liability under laws that protect the privacy of personal information, and could damage our reputation.

**Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.**

We have significant investments in markets that may be the targets of actual or threatened terrorism attacks in the future. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially. See also *We may lose capital investment or anticipated profits if an uninsured event occurs.*

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

We carry, or our tenants carry, comprehensive liability, fire and extended coverage with respect to each of our properties, with policy specification and insured limits customarily carried for similar properties. There are, however, certain types of losses that may be either uninsurable or not economically insurable. Should an uninsured material loss occur, we could lose both capital invested in the property and anticipated profits.

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

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

- liabilities for clean-up or remediation of environmental conditions;

- claims of tenants, vendors or other persons dealing with the former owners of the properties; and
- liabilities incurred in the ordinary course of business.

**Our employee retention plan may prevent changes in control.**

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

**Further issuances of equity securities may be dilutive to current stockholders.**

The interests of our existing stockholders could be diluted if additional equity securities are issued to finance future acquisitions, repay indebtedness or to fund other general corporate purposes. Our ability to execute

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our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing.

**The price of our common stock may vary.**

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

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

The provisions of the tax code governing the taxation of real estate investment trusts are very technical and complex, and although we expect that we will be organized and will operate in a manner that will enable us to meet such requirements, no assurance can be given that we will always succeed in doing so. In addition, as a result of our past acquisition of certain Sponsored REITs by merger, which we refer to as target REITs, we might no longer qualify as a real estate investment trust. We could lose our ability to so qualify for a variety of reasons relating to the nature of the assets acquired from the target REITs, the identity of the stockholders of the target REITs who become our stockholders or the failure of one or more of the target REITs to have previously qualified as a real estate investment trust. Moreover, you should note that if one or more of the target REITs that we acquired in May 2008, April 2006, April 2005 or June 2003 did not qualify as a REIT immediately prior to the consummation of its acquisition, we could be disqualified as a REIT as a result of such acquisition.

If in any taxable year we do not qualify as a real estate investment trust, we would be taxed as a corporation and distributions to our stockholders would not be deductible by us in computing our taxable income. In addition, if we were to fail to qualify as a real estate investment trust, we could be disqualified from treatment as a real estate investment trust in the year in which such failure occurred and for the next four taxable years and, consequently, we would be taxed as a regular corporation during such years. Failure to qualify for even one taxable year could result in a significant reduction of our cash available for distribution to our stockholders or could require us to incur indebtedness or liquidate investments in order to generate sufficient funds to pay the resulting federal income tax liabilities.

**Provisions in our organizational documents may prevent changes in control.**

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

*Ownership Limits.* In order for us to maintain our qualification as a real estate investment trust, the holders of our common stock may be limited to owning, either directly or under applicable attribution rules of the Internal Revenue Code, no more than 9.8% of the lesser of the value or the number of our equity shares, and no holder of common stock may acquire or transfer shares that would result in our shares of common stock

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being beneficially owned by fewer than 100 persons. Such ownership limit may have the effect of preventing an acquisition of control of us without the approval of our board of directors. Our Articles of Incorporation give our board of directors the right to refuse to give effect to the acquisition or transfer of shares by a stockholder in violation of these provisions.

*Staggered Board.* Our board of directors is divided into three classes. The terms of these classes will expire in 2014, 2015 and 2016, respectively. Directors of each class are elected for a three-year term upon the expiration of the initial term of each class. The staggered terms for directors may affect our stockholders' ability to effect a change in control even if a change in control were in the stockholders' best interests.

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

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

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

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

*Supermajority Votes Required.* Our Articles of Incorporation require the affirmative vote of the holders of no less than 80% of the shares of capital stock outstanding and entitled to vote in order (i) to amend the provisions of our Articles of Incorporation relating to the classification of directors, removal of directors, limitation of liability of officers and directors or indemnification of officers and directors or (ii) to amend our Articles of Incorporation to impose cumulative voting in the election of directors. These provisions could have the effect of delaying or preventing a change in control even if a change in control were in our stockholders' best interest.

**Item 1B. Unresolved Staff Comments.**

None.

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Set forth below is information regarding our properties as of December 31, 2013:

<b>Property Location</b>	<b>Date of Purchase (1)</b>	<b>Approx. Square Feet</b>	<b>Percent Leased as of 12/31/13</b>	<b>Approx. Number of Tenants</b>	<b>Major Tenants (2)</b>
<b>Office</b>					
1515 Mockingbird Lane Charlotte, NC 28209	8/1/97	109,674	82%	61	Primary PhysicianCare
678-686 Hillview Drive Milpitas, CA 95035	3/9/99	36,288	100%	1	Headway Technologies, Inc.
600 Forest Point Circle Charlotte, NC 28273	7/8/99	62,212	100%	1	American National Red Cross
4820 & 4920 Centennial Blvd. Colorado Springs, CO 80919	9/28/00	110,405	85%	3	Comcast of ColoradoX, LLC Walter Kidde Portable Equipment, Inc. METSO Minerals Industries, Inc.
14151 Park Meadow Drive Chantilly, VA 20151	3/15/01	138,537	93%	5	American Systems Corporation Omniplex World Services Booz Allen Hamilton, Inc.
1370 & 1390 Timberlake Manor Parkway, Chesterfield, MO 63017	5/24/01	232,766	98%	5	RGA Reinsurance Company AMDOCS, Inc.
501 & 505 South 336th Street Federal Way, WA 98003	9/14/01	117,010	54%	12	SunGard Availability Services, LP
50 Northwest Point Rd. Elk Grove Village, IL 60005	12/5/01	176,848	100%	1	Citicorp Credit Services, Inc.
1350 Timberlake Manor Parkway Chesterfield, MO 63017	3/4/02	116,197	91%	3	RGA Reinsurance Company AB Mauri Food Inc. d/b/a Fleischmanns Yeast
16285 Park Ten Place Houston, TX 77084	6/27/02	157,460	100%	9	Modec International, Inc. PB Americas, Inc. BAE Systems Land & Armaments, LP Bluware, Inc.
2730-2760 Junction Avenue 408-410 East Plumeria San Jose, CA 95134	8/27/02	145,951	100%	3	County of Santa Clara Spidercloud Wireless, Inc. AltiGen Communications, Inc.
15601 Dallas Parkway	9/30/02	293,787	94%	7	Behringer Harvard Holdings, LLC

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Addison, TX 75001					Noble Royalties, Inc. Federal National Mortgage Association
1500 & 1600 Greenville Ave. Richardson, TX 75080	3/3/03	298,766	100%	4	ARGO Data Resource Corp. VCE Company, LLC Id Software, LLC



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Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/13	Approx. Number of Tenants	Major Tenants (2)
6550 & 6560 Greenwood Plaza Englewood, CO 80111	2/24/05	196,236	100%	4	DIRECTV, Inc. Kaiser Foundation Health Plan
3815-3925 River Crossing Pkwy Indianapolis, IN 46240	7/6/05	205,059	99%	14	Somerset CPAs, P.C. Crow Horwath, LLP The College Network, Inc.
5055 & 5057 Keller Springs Rd. Addison, TX 75001	2/24/06	218,934	96%	33	See Footnote 3
2740 North Dallas Parkway Plano, TX 75093	12/15/00	117,050	100%	6	Masergy Communications, Inc. Special Insurance Services, Inc. NelsonArchitectural Engineers, Inc. Williston Financial Group WR Starky Mortgage, LLP
5505 Blue Lagoon Drive Miami, FL 33126	11/6/03	212,619	100%	1	Burger King Corporation
5600, 5620 & 5640 Cox Road Glen Allen, VA 23060	7/16/03	298,456	100%	6	SunTrust Bank General Electric Company ChemTreat, Inc.
1293 Eldridge Parkway Houston, TX 77077	1/16/04	248,399	100%	1	CITGO Petroleum Corporation
380 Interlocken Crescent Broomfield, CO 80021	8/15/03	240,184	86%	9	VMWare, Inc. MWH Americas, Inc Cooley LLP Sierra Financial Services, Inc.
3625 Cumberland Boulevard Atlanta, GA 30339	6/27/06	387,267	98%	25	Corporate Holdings, LLC Century Business Services, Inc. Bennett Thrasher PC Randstad General Partner (US)
390 Interlocken Crescent	12/21/06	241,516	69%	7	Vail Holdings, Inc.
120 East Baltimore St. Baltimore, MD 21202	6/13/07	325,445	78%	16	SunTrust Bank State s Attorney for Baltimore City State Retirement and Pension Systems of Maryland
16290 Katy Freeway Houston, TX 77094	9/28/05	156,746	100%	3	Murphy Exploration and Production Company

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Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/13	Approx. Number of Tenants	Major Tenants (2)
2291 Ball Drive St Louis, MO 63146	12/11/08	127,778	100%	1	Monsanto Company
45925 Horseshoe Drive Sterling, VA 20166	12/26/08	135,888	100%	1	Giesecke & Devrient America, Inc
4807 Stonecroft Blvd. Chantilly, VA 20151	6/26/09	111,469	100%	1	Northrop Grumman Systems Corp.
14800 Charlson Road Eden Prairie, MN 55347	6/30/09	153,028	100%	1	C.H. Robinson Worldwide, Inc.
121 South Eighth Street and 801 Marquette Ave. S. Minneapolis, MN 55402	6/29/10	474,991	91%	41	TCF National Bank
4820 Emperor Boulevard Durham, NC 27703	3/4/11	259,531	100%	1	Quintiles Transnational Corp.
5100 & 5160 Tennyson Pkwy Plano, TX 75024	3/10/11	202,600	100%	1	Denbury Onshore LLC
7500 Dallas Parkway Plano, TX 75024	3/24/11	214,110	100%	6	ADS Alliance Data Systems, Inc. Americorp., Inc. d/b/a Altair Global
909 Davis Street Evanston, IL 60201	9/30/11	195,245	98%	6	Houghton Mifflin Harcourt Publishing Company Northshore University Healthsystem
One Ravinia Drive Atlanta, Georgia	7/31/12	386,603	90%	17	T-Mobile South LLC Internap Network Services Corporation Cedar Technologies
10370 & 10350 Richmond Ave. Houston, TX 77042	11/1/12	629,025	97%	50	Petrobras America, Inc.
1999 Broadway Denver, CO	5/22/13	673,839	96%	33	Promontory Financial Group, LLC United States Government
999 Peachtree Atlanta, GA	7/1/13	621,946	94%	42	Sutherland Asbill Brennan LLP Heery International, Inc.
1001 17th Street Denver, CO	8/28/13	655,420	89%	17	WPX Energy, Inc. Newfield Exploration
<b>Total Office</b>		<b>9,685,285</b>	<b>94%</b>		

(1) Date of purchase or merged entity date of purchase.

(2) Major tenants that occupy 10% or more of the space in an individual property.

(3) No tenant occupies more than 10% of the space.

All of the properties listed above are owned, directly or indirectly, by us. None of our properties are subject to any mortgage loans. We have no material undeveloped or unimproved properties, or proposed programs for material renovation, improvement or development of any of our properties in 2014. We believe that our properties are adequately covered by insurance as of December 31, 2013.

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The information presented below provides the weighted average GAAP rent per square foot for the year ending December 31, 2013 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of December 31, 2013 (a)	Weighted Average Rent per Occupied Square Feet (b)
Park Seneca	Charlotte	NC	1969	109,674	86,061	78.5%	\$ 15.59
Forest Park	Charlotte	NC	1999	62,212	62,212	100.0%	14.37
Meadow Point	Chantilly	VA	1999	138,537	128,341	92.6%	26.84
Innsbrook	Glen Allen	VA	1999	298,456	295,830	99.1%	17.93
East Baltimore	Baltimore	MD	1989	325,445	238,974	73.4%	24.44
Loudoun Tech Center	Dulles	VA	1999	135,888	135,888	100.0%	15.91
Stonecroft	Chantilly	VA	2008	111,469	111,469	100.0%	37.95
Emperor Boulevard	Durham	NC	2009	259,531	259,531	100.0%	35.46
<b>East total</b>				1,441,212	1,318,306	91.5%	24.59
Northwest Point	Elk Grove Village	IL	1999	176,848	176,848	100.0%	19.35
909 Davis Street	Evanston	IL	2002	195,245	191,223	97.9%	34.84
River Crossing	Indianapolis	IN	1998	205,059	191,935	93.6%	22.24
Timberlake	Chesterfield	MO	1999	232,766	215,635	92.6%	22.93
Timberlake East	Chesterfield	MO	2000	116,197	108,365	93.3%	23.55
Lakeside Crossing	Maryland Heights	MO	2008	127,778	127,778	100.0%	24.28
Eden Bluff	Eden Praire	MN	2006	153,028	153,028	100.0%	27.60
121 South 8th Street	Minneapolis	MN	1974	474,991	428,299	90.2%	14.97
<b>Midwest total</b>				1,681,912	1,593,111	94.7%	22.34
Blue Lagoon Drive	Miami	FL	2002	212,619	212,619	100.0%	23.53
One Overton Place	Atlanta	GA	2002	387,267	336,961	87.0%	22.91
Willow Bend Office Center	Plano	TX	1999	117,050	104,069	88.9%	20.79
Park Ten	Houston	TX	1999	157,460	156,106	99.1%	28.15
Addison Circle	Addison	TX	1999	293,787	280,890	95.6%	24.06
Collins Crossing	Richardson	TX	1999	298,766	283,051	94.7%	23.82
Eldridge Green	Houston	TX	1999	248,399	248,399	100.0%	30.13

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The following table is continued from the previous page and provides the weighted average GAAP rent per square foot for the year ending December 31, 2013 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of December 31, 2013 (a)(c)	Weighted Average Rent per Occupied Square Feet (b)(c)
Park Ten Phase II	Houston	TX	2006	156,746	156,746	100.0%	31.18
Liberty Plaza	Addison	TX	1985	218,934	183,182	83.7%	19.75
Legacy Tennyson Center	Plano	TX	1999/2008	202,600	202,600	100.0%	18.53
One Legacy Circle	Plano	TX	2008	214,110	214,110	100.0%	32.29
One Ravinia Drive	Atlanta	GA	1985	386,603	341,718	88.4%	21.78
Westchase I & II	Houston	TX	1983/2008	629,025	606,569	96.4%	31.52
999 Peachtree	Atlanta	GA	1987	621,946	587,179	94.4%(c)	28.74(c)
<b>South Total</b>				4,145,312	3,914,199	94.4%	26.28
Centennial Technology Center	Colorado Springs	CO	1999	110,405	94,297	85.4%	15.71
380 Interlocken	Broomfield	CO	2000	240,184	207,015	86.2%	29.14
1999 Broadway	Denver	CO	1986	673,839	642,303	95.3%(c)	30.01(c)
1001 17th Street	Denver	CO	1977/2006	655,420	579,719	88.5%(c)	31.73(c)
Greenwood Plaza	Englewood	CO	2000	196,236	135,756	69.2%	21.22
390 Interlocken	Broomfield	CO	2002	241,516	187,102	77.5%	28.70
Hillview Center	Milpitas	CA	1984	36,288	36,288	100.0%	15.61
Federal Way	Federal Way	WA	1982	117,010	56,528	48.3%	18.67
Montague Business Center	San Jose	CA	1982	145,951	145,951	100.0%	15.63
<b>West Total</b>				2,416,849	2,084,959	86.3%	27.50
<b>Grand Total</b>				9,685,285	8,910,575	92.0%	25.61

(a) Based on weighted occupied square feet for the year ended December 31, 2013, including month-to-month tenants, divided by the Property's net rentable square footage.

(b) Represents annualized GAAP rental revenue for year ended December 31, 2013 per weighted occupied square foot.

(c) For Properties purchased during 2013, period represents from acquisition date through December 31, 2013 for calculations.

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**Item 3.           Legal Proceedings**

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

**Item 4.           Mine Safety Disclosures**

Not applicable.

Table of Contents**PART II****Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the NYSE MKT under the symbol FSP . The following table sets forth the high and low sales prices on the NYSE MKT for the quarterly periods indicated.

Three Months Ended	Range		
	High		Low
December 31, 2013	\$ 13.77	\$	11.70
September 30, 2013	\$ 14.44	\$	11.55
June 30, 2013	\$ 15.27	\$	12.34
March 31, 2013	\$ 14.80	\$	12.55
December 31, 2012	\$ 12.88	\$	10.42
September 30, 2012	\$ 12.34	\$	9.98
June 30, 2012	\$ 10.84	\$	9.57
March 31, 2012	\$ 11.14	\$	9.43

As of February 7, 2014, there were 10,530 holders of our common stock, including both holders of record and participants in securities position listings.

On January 10, 2014, our board of directors declared a dividend of \$0.19 per share of our common stock payable to stockholders of record as of January 24, 2014 that was paid on February 14, 2014. Set forth below are the distributions per share of common stock made by FSP Corp. in each quarter since 2012.

Quarter Ended	Distribution Per Share of Common Stock of FSP Corp.	
December 31, 2013	\$	0.19
September 30, 2013	\$	0.19
June 30, 2013	\$	0.19
March 31, 2013	\$	0.19
December 31, 2012	\$	0.19
September 30, 2012	\$	0.19
June 30, 2012	\$	0.19
March 31, 2012	\$	0.19

While not guaranteed, we expect that cash dividends on our common stock comparable to our most recent quarterly dividend will continue to be paid in the future. See Part I, Item 1A Risk Factors, "Our level of dividends may fluctuate." for additional information.





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**STOCK PERFORMANCE GRAPH**

The following graph compares the cumulative total stockholder return on the Company's common stock between December 31, 2008 and December 31, 2013 with the cumulative total return of (1) the NAREIT Equity Index, (2) the Standard & Poor's 500 Composite Stock Price Index ( S&P 500 ) and (3) the Russell 2000 Total Return Index over the same period. This graph assumes the investment of \$100.00 on December 31, 2008 and assumes that any distributions are reinvested.

	As of December 31,							
	2008	2009	2010	2011	2012	2013		
FSP	\$ 100	\$ 104	\$ 107	\$ 80	\$ 106	\$ 109		
NAREIT Equity	100	128	164	177	212	218		
S&P 500	100	126	146	149	172	228		
Russell 2000	100	127	161	155	180	250		

Notes to Graph:

The above performance graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act, as amended of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.



Table of Contents**Item 6. Selected Financial Data**

The following selected financial information is derived from the historical consolidated financial statements of FSP Corp. This information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and with FSP Corp.'s consolidated financial statements and related notes thereto included in Item 8.

(In thousands, except per share amounts)	Year Ended December 31,				
	2013	2012	2011	2010	2009
<b>Operating Data:</b>					
Total revenue	\$ 213,636	\$ 161,580	\$ 138,041	\$ 115,802	\$ 118,635
Income from:					
Income from continuing operations	17,294	22,950	19,357	17,729	27,085
Income from discontinued operations	2,533	(15,317)	24,167	4,364	787
Net income	19,827	7,633	43,524	22,093	27,872
Basic and diluted income per share:					
Continuing operations	\$ 0.18	\$ 0.28	\$ 0.24	\$ 0.22	\$ 0.37
Discontinued operations	0.03	(0.19)	0.29	0.06	0.01
Total	\$ 0.21	\$ 0.09	\$ 0.53	\$ 0.28	\$ 0.38
Distributions declared per share outstanding:	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76
<b>Balance Sheet Data:</b>					
Total assets	\$ 2,044,034	\$ 1,526,068	\$ 1,407,348	\$ 1,238,735	\$ 1,154,850
Total liabilities	993,868	661,319	485,981	317,177	217,576
Total shareholders' equity	1,050,166	864,749	921,367	921,558	937,274

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**Item 7. 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. 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 Annual Report on Form 10-K may also contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, including without limitation, economic conditions in the United States, disruptions in the debt markets, economic conditions in the markets in which we own properties, risks of a lessening of demand for the types of real estate owned by us, uncertainties relating to fiscal policy, changes in government regulations and regulatory uncertainty, geopolitical events, and expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs, additional staffing, insurance increases and real estate tax valuation reassessments. See Risk Factors in Item 1A. 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 Annual Report on Form 10-K is filed to conform them to actual results or to changes in our expectations that occur after such date, other than as required by law.

Overview

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

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

Trends and Uncertainties

*Economic Conditions*

The economy in the United States is continuing to experience a period of limited economic growth, including relatively high levels of unemployment, which directly affects the demand for office space, our primary income producing asset. The broad economic market conditions in the United States are affected by numerous factors, including but not limited to, inflation and employment levels, energy prices, slow

economic growth and/or recessionary concerns, uncertainty about government fiscal and tax policy, changes in currency exchange rates, geopolitical events, the regulatory environment, the availability of debt and interest rate fluctuations. However, we believe that unemployment rates have begun to trend lower. We also believe that the Federal Reserve Bank's tapering program in December 2013 has been generally received as a harbinger of real improvement in the economy, which could bode well for our real estate operations. We could benefit from any further improved economic fundamentals and increasing levels of employment. We believe that the economy could be in the early stages of a cyclically-slower but prolonged broad-based upswing. However, future economic factors may negatively affect real estate values, occupancy levels and property income.

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*Real Estate Operations*

*Leasing*

Our real estate portfolio was approximately 94.1% leased as of December 31, 2013 and approximately 94.0% leased as of December 31, 2012. The 0.1% increase in leased space was from leasing accomplished during 2013 and was partially offset by the effect on our overall leased % from an acquisition with a lower amount of leased space. On August 28, 2013 we acquired a 655,565 square foot office building in Denver, Colorado that was 88.5% leased at the time of acquisition. We believe this property offers an excellent opportunity to increase occupancy and rental income stream within a vibrant and growing Denver central business district office market, creating incremental value for the Company. During the year ended December 31, 2013, we leased approximately 912,000 square feet of office space, of which approximately 645,000 square feet were with existing tenants, at a weighted average term of 7.21 years. On average, tenant improvements for such leases were \$18.25 per square foot, lease commissions were \$8.48 per square foot and rent concessions were approximately three months of free rent. Average GAAP base rents under such leases were \$23.33 per square foot, or 8.0% higher than average rents in the respective properties as applicable compared to the year ended December 31, 2012.

As of December 31, 2013, leases for approximately 5.6% and 9.5% of the square footage in our portfolio are scheduled to expire during 2014 and 2015, respectively. As 2014 begins, we believe that our property portfolio is well stabilized, with a balanced lease expiration schedule. We believe that most of our largest property markets are now experiencing positive trends in both occupancies and rental rates. We believe our property portfolio has improved our occupancy levels and should allow overall tenant improvement expenditures and leasing costs to moderate in relation to the level of rental revenues being achieved as we look ahead.

While we cannot generally predict when existing vacancy in our real estate portfolio will be leased or if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, we expect to renew or sign new leases at then-current market rates for locations in which the buildings are located, which could be below the expiring rates. Also, even as the economy recovers, we believe the potential for any of our tenants to default on its lease or to seek the protection of bankruptcy still exists. If any of our tenants defaults on its lease, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. In addition, at any time, a tenant of one of our properties may seek the protection of bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in cash available for distribution to our stockholders.

*Real Estate Acquisition and Investment Activity*

During 2013:

- on May 22, we acquired an office property with approximately 680,277 rentable square feet of space for \$183.0 million located in the central business district of Denver, Colorado;
- on July 1, we acquired an office property with approximately 621,007 rentable square feet for \$157.9 million located in the midtown submarket of Atlanta, Georgia;

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- on August 28, we acquired an office property with approximately 655,565 rentable square feet of space for \$217.0 million located in the central business district of Denver, Colorado;
- on December 6, we received approximately \$2.35 million from FSP 505 Waterford Corp. as repayment in full of a Sponsored REIT Loan; and
- funded advances on Sponsored REIT Loans for revolving lines of credit in the aggregate amount of approximately \$8.2 million.

During 2012, we:

- acquired two properties directly into our portfolio with a total of approximately 1,016,000 rentable square feet at an aggregate purchase price of approximately \$207.6 million. On July 31, 2012, we acquired an office property with approximately 387,000 square feet for approximately \$52.8 million in Atlanta, Georgia and on November 1, 2012 we acquired an office property with approximately 629,000 square feet for approximately \$154.8 million in Houston, Texas.
- funded advances on Sponsored REIT Loans for revolving lines of credit of an aggregate of approximately \$41.6 million including \$30 million during March 2012 to FSP 50 South Tenth Street Corp., and \$11.6 million for revolving lines of credit made during the year ended December 31, 2012;
- received repayments on Sponsored REIT Loans of \$121.2 million, including \$106.2 million on July 27, 2012 from a first mortgage loan on a property owned by FSP 50 South Tenth Street

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Corp., and \$15.0 million on December 20, 2012 from a secured revolving line of credit with FSP Phoenix Tower Corp.;

- made and funded a Sponsored REIT Loan on July 5, 2012, in the form of a first mortgage loan in the principal amount of \$33 million to a wholly-owned subsidiary of a Sponsored REIT, FSP Energy Tower I Corp., which owns a property in Houston, Texas.

During 2011, we:

- we acquired five properties directly into our portfolio with an aggregate of approximately 994,000 rentable square feet at an aggregate purchase price of approximately \$214.2 million. On March 4, 2011 we acquired a commercial property with approximately 260,000 rentable square feet for approximately \$75.8 million in North Carolina, on March 10, 2011, we acquired a commercial property with approximately 203,000 rentable square feet for approximately \$37.0 million in Texas, on March 24, 2011, we acquired another commercial property with approximately 214,000 rentable square feet for approximately \$53.0 million in Texas, on September 30, 2011 we acquired a property with approximately 195,000 rentable square feet for approximately \$37.1 million in Illinois and on October 6, 2011 we acquired another commercial property with approximately 122,000 rentable square feet for approximately \$11.3 million in Texas; and
- funded advances on Sponsored REIT Loans of an aggregate of approximately \$82.8 million including \$76.2 million on December 29, 2011, for a first mortgage loan on a property owned by FSP 50 South Tenth Street Corp., which was repaid in 2012 and \$6.6 million for revolving lines of credit and construction loans made during the year ended December 31, 2011.

***Discontinued Operations and Dispositions***

We include properties sold or held for sale and investment banking activities as discontinued operations.

***Property Dispositions***

We sold an office property located in Richardson, Texas on October 29, 2013 at a \$2.2 million gain.

During the three months ended September 30, 2012, we reached a decision to classify our office property located in Southfield, Michigan as an asset held for sale. In evaluating the Southfield, Michigan property, management considered various subjective factors, including the time, cost and likelihood of successfully leasing the property, the effect of the property's results on its unencumbered asset value, which is part of the leverage ratio used to calculate interest rates under the 2012 Credit Facility and future capital costs to upgrade and reposition the multi-tenant property and to lease up the building, recent leasing and economic activity in the local area, and offers to purchase the property. We concluded that selling the property was the more prudent decision and outweighed the potential future benefit of continuing to hold the property. The property was expected to sell within one year at a loss, which was recorded as a provision for loss on a property held for sale of \$14.3 million net of applicable income taxes and was classified as an asset held for sale of \$0.7 million at September 30, 2012. We sold the property on December 21, 2012 for \$0.3 million resulting in a total loss of \$14.8 million.



We sold an industrial property located in Savage, Maryland on June 24, 2011 at a \$2.3 million gain and in 2010 reached an agreement to sell an office property, located in Falls Church, Virginia, which was sold on January 21, 2011 at a \$19.6 million gain. The Falls Church, Virginia property was classified as an asset held for sale at December 31, 2010. Accordingly, properties sold were classified as discontinued for all periods presented.

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

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*Investment Banking*

Previously we operated in the investment banking segment, and in December 2011, we discontinued those activities. The investment banking segment involved the structuring of real estate investments and broker/dealer services that included 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 Sponsored REITs through sale of preferred stock in private placements. On December 15, 2011, we announced that our broker/dealer subsidiary, FSP Investments LLC, would no longer sponsor the syndication of shares of preferred stock in newly-formed Sponsored REITs.

FSP Investments LLC continues to provide investor services to existing Sponsored REITs, which is not a significant activity, and has the capability to sponsor the syndication of any additional shares of preferred stock in existing Sponsored REITs. Our decision to no longer sponsor the syndication of shares of preferred stock in newly-formed Sponsored REITs was made after judging the potential for meaningful future profit contribution to our earnings from such syndications to be limited. Our investment banking segment had been marginal in its profit contribution over the prior four years and we believed time and resources would be more productively deployed elsewhere.

Critical Accounting Policies

We have certain critical accounting policies that are subject to judgments and estimates by our management and uncertainties of outcome that affect the application of these policies. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The accounting policies that we believe are most critical to the understanding of our financial position and results of operations, and that require significant management estimates and judgments, are discussed below. Significant estimates in the consolidated financial statements include the allowance for doubtful accounts, purchase price allocations, useful lives of fixed assets, impairment considerations and the valuation of the derivative.

Critical accounting policies are those that have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in Sponsored REITs and our investments in real property. These policies affect our:

- allocation of purchase prices;
- allowance for doubtful accounts;
- assessment of the carrying values and impairments of long lived assets;
- useful lives of fixed assets and intangibles;
- valuation of derivatives;

- classification of leases; and
- ownership of stock in a Sponsored REIT and related interests.

These policies involve significant judgments made based upon our experience, including judgments about current valuations, ultimate realizable value, estimated useful lives, salvage or residual value, the ability of our tenants to perform their obligations to us, current and future economic conditions and competitive factors in the markets in which our properties are located. Competition, economic conditions and other factors may cause occupancy declines in the future. In the future we may need to revise our carrying value assessments to incorporate information which is not now known and such revisions could increase or decrease our depreciation expense related to properties we own, result in the classification of our leases as other than operating leases or decrease the carrying values of our assets.

*Allocation of Purchase Price*

We have historically allocated the purchase prices of properties to land, buildings and improvements. Each component of purchase price generally has a different useful life. For properties acquired subsequent to June 1, 2001, we allocate the value of real estate acquired among land, buildings, improvements and identified intangible assets and liabilities, which may consist of the value of above market and below market leases, the value of in-place leases, and the value of tenant relationships. Purchase price allocations and the determination of the useful lives are

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based on management's estimates. Under some circumstances we may rely upon studies commissioned from independent real estate appraisal firms in determining the purchase price allocations.

Purchase price allocated to land and building and improvements is based on management's determination of the relative fair values of these assets assuming the property was vacant. Management determines the fair value of a property using methods similar to those used by independent appraisers. Purchase price allocated to above or below market leases is based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases including consideration of potential lease renewals and (ii) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. Purchase price allocated to in-place leases and tenant relationships is determined as the excess of (i) the purchase price paid for a property after adjusting existing in-place leases to market rental rates over (ii) the estimated fair value of the property as if vacant. This aggregate value is allocated between in-place lease values and tenant relationships based on management's evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from in-place lease value because such value and its consequence to amortization expense is immaterial for acquisitions reflected in our financial statements. Factors considered by us in performing these analyses include (i) an estimate of carrying costs during the expected lease-up periods, including real estate taxes, insurance and other operating income and expenses, and (ii) costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If future acquisitions result in our allocating material amounts to the value of tenant relationships, those amounts would be separately allocated and amortized over the estimated life of the relationships.

*Allowance for Bad Debts*

We provide an allowance for bad debts based on our estimate of a tenant's ability to make future rent payments. The computation of this allowance is based in part on the tenants' payment history and current credit status.

*Impairment*

We periodically evaluate our real estate properties for impairment indicators. These indicators may include declining tenant occupancy, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life or legislative, economic or market changes that permanently reduce the value of our investments. If indicators of impairment are present, we evaluate the carrying value of the property by comparing it to its expected future undiscounted cash flows. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to the present value of these expected future cash flows. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future tenant profitability, market or industry factors differ from our expectations, we may record an impairment charge which is inappropriate or fail to record a charge when we should have done so, or the amount of such charges may be inaccurate.

*Depreciation and Amortization Expense*

We compute depreciation expense using the straight-line method over estimated useful lives of up to 39 years for buildings and improvements, and up to 15 years for personal property. Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions)

are capitalized and amortized over the lease period. The allocated cost of land is not depreciated. The value of above or below-market leases is amortized over the remaining non-cancelable periods of the respective leases as an adjustment to rental income. The value of in-place leases, exclusive of the value of above-market and below-market in-place leases, is also amortized over the remaining non-cancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Inappropriate allocation of acquisition costs, or incorrect estimates of useful lives, could result in depreciation and amortization expenses which do not appropriately reflect the allocation of our capital expenditures over future periods, as is required by generally accepted accounting principles.

*Derivative Instruments*

We recognize derivatives on the balance sheet at fair value. Derivatives that do not qualify, or are not designated as hedge relationships, must be adjusted to fair value through income. Derivative instruments designated

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in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability. To the extent hedges are effective, a corresponding amount, adjusted for swap payments, is recorded in accumulated other comprehensive income within stockholders' equity. Amounts are then reclassified from accumulated other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings. Ineffectiveness, if any, is recorded in the income statement. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. We currently have no fair value hedges outstanding. Fair values of derivatives are subject to significant variability based on changes in interest rates and counterparty credit risk. To the extent we enter into fair value hedges in the future, the results of such variability could be a significant increase or decrease in our derivative assets, derivative liabilities, book equity, and/or earnings.

*Lease Classification*

Some of our real estate properties are leased on a triple net basis, pursuant to non-cancelable, fixed term, operating leases. Each time we enter a new lease or materially modify an existing lease we evaluate whether it is appropriately classified as a capital lease or as an operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and market value of a property, discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

*Ownership of Stock in a Sponsored REIT and Related Interests*

Common stock investments in Sponsored REITs were consolidated while the entity was controlled by the Company. Following the commencement of syndication the Company exercised influence over, but did not control these entities and investments are accounted for using the equity method. Once under the equity method of accounting, our cost basis is adjusted by our share of the Sponsored REITs' earnings, if any, prior to completion of the syndication. Equity in losses or dividends received from Sponsored REITs generally are recognized as income once the investment balance is reduced to zero, unless there is an asset held for syndication from the Sponsored REIT entity. Equity in losses or distributions received in excess of investment is recorded as an adjustment to the carrying value of the asset held for syndication. In December 2011, we announced that we will no longer sponsor the syndication of newly-formed Sponsored REITs.

We recognized our share of the operations during the period we consolidated and when the equity method is appropriate, as opposed to classifying the Sponsored REITs as discontinued operations, because we earned an ongoing asset and/or property management fee from Sponsored REITs. These ongoing fees, in addition to the influence that we exercise over the Sponsored REIT, constituted a continuing involvement between the Company and the Sponsored REIT and precluded treatment as discontinued operations.

We currently hold preferred stock interests in two Sponsored REITs. As a result of our common and preferred stock interests in these two Sponsored REITs, we exercise influence over, but do not control these entities. These preferred stock interests are accounted for using the equity method. Under the equity method of accounting our cost basis is adjusted by our share of the Sponsored REITs' operations and distributions received. We also agreed to vote our preferred shares (i) with respect to any merger in the same manner that a majority of the other stockholders of the Sponsored REIT vote for or against the merger and (ii) with respect to any other matter presented to a vote by the stockholders of these Sponsored REITs in the same proportion as shares voted by other stockholders of that Sponsored REIT.

We also previously held a preferred stock interest in a third Sponsored REIT known as Phoenix Tower. On December 20, 2012, the property owned by Phoenix Tower was sold and, thereafter, Phoenix Tower declared and issued a liquidating distribution for its preferred shareholders, from which the Company was entitled to \$4,862,000. As a result of the sale, the Company recognized its share of the gain of \$1,582,000. We received \$4,752,000 on January 4, 2013 and \$96,000 on September 30, 2013. In connection with our common stock ownership of Phoenix Tower, we received \$10,000 on September 30, 2013. As of December 31, 2013, we held a beneficial interest in the Phoenix Tower liquidating trust in the amount of \$14,000.

Table of Contents**Results of Operations**

## Impact of Real Estate Acquisition and Investment Activity:

The results of operations for each of the acquired properties are included in our operating results as of their respective purchase dates and the funding and repayment dates for mortgage investments. Increases in rental revenues, interest income from loans and expenses for the year ended December 31, 2013 compared to the year ended December 31, 2012, or the year ended December 31, 2012 compared to the year ended December 31, 2011 are primarily a result of the timing of these acquisitions and subsequent contribution of these acquired properties as well as the affect on interest income from the dates of funding and repayment on our mortgage investments.

## Sales of Real Estate:

We sold an office property located in Richardson, Texas on October 29, 2013 at a \$2.2 million gain. On December 21, 2012, we sold an office property located in Southfield, Michigan at a loss. On June 24, 2011, we sold an industrial property located in Savage, Maryland at a gain. During 2010, we reached an agreement to sell an office property located in Falls Church, Virginia, which sold on January 21, 2011, at a gain. The operating results of the properties sold are classified as discontinued operations in our consolidated financial statements for all periods presented.

The following table shows financial results for the years ended December 31, 2013 and 2012.

(in thousands)	2013	2012	Change
<b>Revenues:</b>			
Rental	\$ 206,926	\$ 150,434	\$ 56,492
<b>Related party revenue:</b>			
Management fees and interest income from loans	6,646	10,947	(4,301)
Other	64	199	(135)
Total revenues	213,636	161,580	52,056
<b>Expenses:</b>			
Real estate operating expenses	51,100	37,440	13,660
Real estate taxes and insurance	31,616	22,904	8,712
Depreciation and amortization	78,839	54,051	24,788
Selling, general and administrative	11,911	9,916	1,995
Interest	21,054	16,068	4,986
Total expenses	194,520	140,379	54,141
Income before interest income, equity in earnings (losses)	19,116	21,201	(2,085)
Interest income	16	51	(35)
Equity in earnings (losses) of non-consolidated REITs	(1,358)	2,033	(3,391)
Income before taxes on income	17,774	23,285	(5,511)
Taxes on income	480	335	145



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Income from continuing operations	17,294	22,950	(5,656)
Discontinued operations:			
Income from discontinued operations, net of income tax	375	(491)	866
Gain on sale, less applicable income tax	2,158	(14,826)	16,984
Total discontinued operations	2,533	(15,317)	17,850
Net income	\$ 19,827	\$ 7,633	\$ 12,194

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*Comparison of the year ended December 31, 2013 to the year ended December 31, 2012*

Revenues

Total revenues increased by \$52.1 million to \$213.6 million for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The increase was primarily a result of:

- An increase in rental revenue of approximately \$56.5 million arising primarily from property acquisitions in July 2012, November 2012, May 2013, July 2013 and August 2013, which were included in the year ended December 31, 2013; and to a lesser extent, leasing, which raised occupancy approximately 0.1% to 94.1% in the continuing real estate portfolio at December 31, 2013 compared to December 31, 2012.
- The increase was partially offset by a \$4.3 million decrease in interest income from loans to Sponsored REITs, which was primarily a result of repayment of two loans in July and December 2012, respectively. These repayments resulted in lower average loan receivable balances from which interest income is derived, during the year ended December 31, 2013, as compared to the year ended December 31, 2012.

Expenses

Total expenses increased by \$54.1 million to \$194.5 million for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The increase was primarily a result of:

- An increase in real estate operating expenses and real estate taxes and insurance of approximately \$22.3 million, and depreciation and amortization of \$24.8 million, which were primarily from property acquisitions in July 2012, November 2012, May 2013, July 2013 and August 2013, which were included in the year ended December 31, 2013.
- An increase to interest expense of approximately \$5.0 million to \$21.1 million for the year ended December 31, compared to the same period in 2012. The increase was primarily attributable to a greater amount of debt outstanding.
- An increase in selling, general and administrative expenses of approximately \$2.0 million, which was primarily the result of increased personnel related expenses of \$0.9 million, professional fees of \$0.5 million, acquisition costs of \$0.3 million and franchise taxes of \$0.3 million. We had 37 and 35 employees as of December 31, 2013 and 2012, respectively, at our headquarters in Wakefield, Massachusetts.

Equity in earnings of non-consolidated REITs

Equity in earnings (losses) from non-consolidated REITs decreased approximately \$3.4 million to a loss of \$1.4 million during the year ended December 31, 2013. The decrease was primarily because equity in income from our preferred stock investment in a Sponsored REIT, FSP 303 East Wacker Drive Corp., which we refer to as East Wacker, decreased \$1.7 million during the year ended December 31, 2013 compared to the same period in 2012; and we had a \$1.6 million gain included in equity in income in 2012 from our preferred stock investment in FSP Phoenix Tower Corp, which sold its property on December 20, 2012.

Taxes on income

Included in income taxes is the Revised Texas Franchise Tax, which is a tax on revenues from Texas properties that increased \$132,000 and federal income taxes of \$13,000 that increased during the year ended December 31, 2013 compared to the year ended December 31, 2012.

Income from continuing operations

Income from continuing operations for the year ended December 31, 2013 was \$17.3 million compared to \$23.0 million for the year ended December 31, 2012, for the reasons described above.

Table of ContentsDiscontinued operations and gain (loss) on sale

Income from discontinued operations increased \$17.9 million for the year ended December 31, 2013 compared to the year ended December 31, 2012. On October 29, 2013 we sold an office property located in Richardson, Texas at a gain of approximately \$2.2 million. On December 21, 2012, we sold one office property located in Southfield, Michigan at a loss of \$14.8 million. To a lesser extent, the increase also included an increase in the income from operations of properties we have sold of \$375,000 for the year ended December 31, 2013 compared to a loss from operations of properties sold of \$491,000 for the year ended December 31, 2012. These assets are classified as held for sale on our balance sheet and resulted in a reclassification of real estate income and expenses of these properties to discontinued operations for all periods presented.

Net income

Net income for the year ended December 31, 2013 was \$19.8 million compared to \$7.6 million for the year ended December 31, 2012, for the reasons described above.

The following table shows financial results for the years ended December 31, 2012 and 2011.

(in thousands)	2012	2011	Change
<b>Revenues:</b>			
Rental	\$ 150,434	\$ 133,946	\$ 16,488
<b>Related party revenue:</b>			
Management fees and interest income from loans	10,947	4,046	6,901
Other	199	49	150
Total revenues	161,580	138,041	23,539
<b>Expenses:</b>			
Real estate operating expenses	37,440	35,074	2,366
Real estate taxes and insurance	22,904	20,112	2,792
Depreciation and amortization	54,051	47,417	6,634
Selling, general and administrative	9,916	6,855	3,061
Interest	16,068	12,666	3,402
Total expenses	140,379	122,124	18,255
Income before interest income, equity in earnings (losses)	21,201	15,917	5,284
Interest income	51	22	29
Equity in earnings (losses) of non-consolidated REITs	2,033	3,685	(1,652)
Income before taxes on income	23,285	19,624	3,661
Taxes on income	335	267	68
Income from continuing operations	22,950	19,357	3,593
<b>Discontinued operations:</b>			
Income from discontinued operations, net of income tax	(491)	2,228	(2,719)
Gain (loss) on sale, less applicable income tax	(14,826)	21,939	(36,765)
Total discontinued operations	(15,317)	24,167	(39,484)

Net income	\$	7,633	\$	43,524	\$	(35,891)
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*Comparison of the year ended December 31, 2012 to the year ended December 31, 2011*

Revenues

Total revenues increased by \$23.5 million to \$161.6 million for the year ended December 31, 2012, as compared to the year ended December 31, 2011. The increase was primarily a result of:

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- An increase in rental revenue of approximately \$16.5 million arising primarily from the acquisition of one property in July 2012, another property in November 2012, another property in October 2011, another property in September 2011 and three properties in March 2011 that were included in the results for the year ended December 31, 2012, and leasing, which raised occupancy to 94.0% at December 31, 2012 compared to 88.7% at December 31, 2011.
- A \$0.2 million increase in management fee income from Sponsored REITs we managed during the year ended December 31, 2012, as compared to the year ended December 31, 2011 primarily as a result of syndications started during 2011.
- A \$6.7 million increase in interest income from Sponsored REIT Loans, which was principally a result of a larger loan receivable balance, from which interest income is derived, and a higher interest rate charged during the year ended December 31, 2012, as compared to the year ended December 31, 2011.

Expenses

Total expenses increased by \$18.2 million to \$140.4 million for the year ended December 31, 2012, as compared to the year ended December 31, 2011. The increase was primarily a result of:

- An increase in real estate operating expenses and real estate taxes and insurance of approximately \$5.2 million, and depreciation of \$6.6 million, which were primarily from the acquisition of one property in July 2012, another property in November 2012, another property in October 2011, another property in September 2011 and three properties in March 2011.
- An increase to interest expense of approximately \$3.4 million to \$16.1 million during the year ended December 31, 2012 compared to \$12.7 million for the same period in 2011. The increase was attributable to a higher amount of debt outstanding, and to a lesser extent the acceleration of some amortization of deferred financing costs related to the 2012 Credit Facility.
- An increase in selling, general and administrative expenses of approximately \$3.0 million during the year ended December 31, 2012 compared to the year ended December 31, 2011, which was primarily the result of a \$0.5 million increase in compensation accruals during the year ended December 31, 2012 compared to the same period in 2011 and a realignment of personnel and resources in our real estate business following a decision to discontinue our investment banking activities in December 2011. These increases were partially offset by lower acquisition costs of \$0.3 million related to the acquisition of properties during the year ended December 31, 2012 compared to \$0.6 million related to acquisition of properties during the year ended December 31, 2011. We had 35 and 33 employees as of December 31, 2012 and 2011, respectively, at our headquarters in Wakefield, Massachusetts.

Equity in earnings of non-consolidated REITs

Equity in earnings from non-consolidated REITs decreased approximately \$1.6 million to \$2.0 million during the year ended December 31, 2012 compared to the same period in 2011. The decrease was primarily due to a decrease of \$1.7 million from syndications that we had in 2011 from investment banking, which was discontinued in December 2011. We also had a decrease of \$1.5 million in equity in income from our preferred stock investment in Sponsored REIT, FSP 303 East Wacker Drive Corp., which we refer to as East Wacker, during the year ended December 31, 2012 compared to the same period in 2011. These decreases were partially offset by a \$1.6 million gain included in equity in income from our preferred stock investment in Phoenix Tower, which sold its property on December 20, 2012.

Taxes on income

Included in income taxes for both periods is the Revised Texas Franchise Tax, which is derived from an income based measure so it is considered an income tax, which increased during the year ended December 31, 2012 by \$68,000 compared to the year ended December 31, 2011.

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Income from continuing operations

Income from continuing operations for the year ended December 31, 2012 was \$23.0 million compared to \$19.4 million for the year ended December 31, 2011, for the reasons described above.

Discontinued operations and gain (loss) on sale

Income from discontinued operations decreased \$39.5 million for the year ended December 31, 2012 compared to the year ended December 31, 2011. The decrease is primarily from a loss on the sale of a property of \$14.8 million compared to a gain on sale of properties of \$21.9 million during the year ended December 31, 2011. To a lesser extent, the decrease also included a decrease in the loss from operations of properties we have sold of \$0.3 million to \$0.5 million for the year ended December 31, 2012 compared to \$0.8 million for the year ended December 31, 2011. In December 2011, we discontinued the investment banking segment, which is included in discontinued operations. Income derived from the investment bank was \$3.0 million for the year ended December 31, 2011.

The sale of properties from our portfolio results in a reclassification of real estate income from those properties for all periods presented to discontinued operations. We sold one office property located in Southfield, Michigan on December 21, 2012, at a loss of \$14.8 million. We sold one industrial property located in Savage, Maryland on June 24, 2011, at a gain of \$2.3 million and one office property located in Falls Church, Virginia on January 21, 2011, at a gain of \$19.6 million. The operations of those properties are reported as discontinued operations on our financial statements for the years ended December 31, 2012 and 2011.

Net income

Net income for the year ended December 31, 2012 was \$7.6 million compared to \$43.5 million for the year ended December 31, 2011, for the reasons described above.



Table of Contents**Non-GAAP Financial Measures**Funds From Operations

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

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

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

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

The calculations of FFO are shown in the following table:

(in thousands):	For the Year Ended December 31,		
	2013	2012	2011
Net income (loss)	\$ 19,827	\$ 7,633	\$ 43,524
(Gain) loss on sale, less applicable income tax	(2,158)	14,826	(21,939)
Equity in earnings of non-consolidated REITs	1,358	(2,033)	(4,490)
FFO from non-consolidated REITs	2,148	4,124	6,784
Depreciation and amortization	79,090	55,518	48,439
NAREIT FFO	100,265	80,068	72,318
Acquisition costs of new properties	568	287	620
<b>Funds From Operations</b>	<b>\$ 100,833</b>	<b>\$ 80,355</b>	<b>\$ 72,938</b>

Net Operating Income (NOI)

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

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The calculations of NOI are shown in the following table:

(in thousands) <u>Region</u>	Rentable Square Feet or RSF	Net Operating Income (NOI)*		Inc (Dec)	% Change
		Year Ended 31-Dec-13	Year Ended 31-Dec-12		
East	1,441	\$ 20,260	\$ 19,360	\$ 900	4.6%
MidWest	1,682	19,864	20,240	(376)	-1.9%
South	2,508	37,563	35,858	1,705	4.8%
West	1,087	9,612	9,937	(325)	-3.3%
Same Store	6,718	87,299	85,395	1,904	2.2%
Acquisitions	2,967	34,801	3,749	31,052	34.7%
Property NOI from the continuing portfolio	9,685	122,100	89,144	32,956	37.0%
Dispositions and asset held for sale		839	703	136	-0.1%
Property NOI		\$ 122,939	\$ 89,847	\$ 33,092	36.8%
Same Store		\$ 87,299	\$ 85,395	\$ 1,904	2.2%
Less Nonrecurring Items in NOI (a)		998	842	156	-0.1%
Comparative Same Store		\$ 86,301	\$ 84,553	\$ 1,748	2.1%

## Reconciliation to Net income

	Year Ended 31-Dec-13	Year Ended 31-Dec-12	
Net Income	\$ 19,827	\$ 7,633	
Add (deduct):			
Discontinued operations	(375)	491	
Loss provision or (gain) on sale of assets	(2,158)	14,826	
Management fee income	(2,493)	(2,120)	
Depreciation and amortization	78,839	54,051	
Amortization of above/below market leases	(213)	273	
Selling, general and administrative	11,929	9,916	
Interest expense	21,054	16,068	
Interest income	(5,584)	(9,848)	
Equity in earnings of non-consolidated REITs	1,358	(2,033)	
Non-property specific items, net	(84)	(113)	
Property NOI from the continuing portfolio	\$ 122,100	\$ 89,144	
Dispositions and asset held for sale	839	703	
Property NOI	\$ 122,939	\$ 89,847	

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

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

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**Liquidity and Capital Resources**

Cash and cash equivalents were \$19.6 million and \$21.3 million at December 31, 2013 and December 31, 2012, respectively. The decrease of \$1.7 million is attributable to \$92.0 million provided by operating activities less \$562.6 million used in investing activities, plus \$468.9 million provided by financing activities. Management believes that existing cash, cash anticipated to be generated internally by operations and our existing debt financing will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months. Although there is no guarantee that we will be able to obtain the funds necessary for our future growth, we anticipate generating funds from continuing real estate operations. We believe that we have adequate funds to cover unusual expenses and capital improvements, in addition to normal operating expenses. Our ability to maintain or increase our level of dividends to stockholders, however, depends in significant part upon the level of rental income from our real properties.

*Operating Activities*

The cash provided by our operating activities of \$92.0 million is primarily attributable to net income of \$19.8 million, less of the \$2.2 million from a gain on sale of a property, plus the add backs of \$75.2 million of non-cash activities, a \$11.5 million increase in accounts payable and accrued expenses and a \$1.5 million increase from tenant security deposits. These increases were partially offset by a \$9.1 million in payments of deferred leasing commissions, \$1.5 million increase in prepaid expenses and other assets, a \$2.1 million increase in tenant rents receivable and a \$1.1 million increase in lease acquisition costs.

*Investing Activities*

Our cash used in investing activities for the year ended December 31, 2013 of \$562.6 million is primarily attributable to \$574.0 million in additions to real estate investments and office equipment and an \$8.2 million increase in Sponsored REIT Loans, which was partially offset by \$12.3 million of proceeds on the sale of a property, a \$4.9 million distribution received from a preferred stock investment in a Sponsored REIT, which was sold in December 2012, a \$2.3 million repayment of a Sponsored REIT Loan and \$0.1 million of distributions in excess of earnings from non-consolidated REITs.

*Financing Activities*

Our cash provided by financing activities for the year ended December 31, 2013 of \$468.9 million is primarily attributable to net proceeds from an equity offering of \$230.7 million, net borrowings under the 2012 Revolver (as defined below) of \$89.7 million and the proceeds of the 2013 Term Loan of \$220.0 million. These increases were partially offset by distributions paid to stockholders of \$69.6 million and payment of financing costs to secure the 2013 Term Loan of \$1.9 million.

*2013 Term Loan*

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On August 26, 2013, the Company and certain of its wholly-owned subsidiaries entered into a Credit Agreement (the 2013 Credit Agreement ) with the lending institutions referenced in the 2013 Credit Agreement and those lenders from time to time party thereto and Bank of Montreal, as administrative agent, to provide for a single unsecured term loan borrowing on the closing date in the amount of \$220,000,000 (the 2013 Term Loan ). On August 26, 2013, the Company drew down \$220,000,000 under the 2013 Term Loan. The 2013 Term Loan has a seven year term that matures on August 26, 2020. The 2013 Term Loan includes an accordion feature that allows for up to \$50,000,000 of additional loans subject to receipt of lender commitments and satisfaction of certain customary conditions.

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The 2013 Term Loan bears interest at either (i) a rate equal to LIBOR plus 145 to 220 basis points depending on our total leverage ratio for the applicable period (LIBOR plus 190 basis points, or 2.06% at December 31, 2013) or (ii) a rate equal to the bank's base rate plus 45 to 120 basis points depending on our total leverage ratio for the applicable period (the bank's base rate plus 90 basis points, or 4.15% at December 31, 2013). The actual LIBOR rate or base rate is determined based on the Company's total leverage ratio for the applicable period as described in the table below:

<b>Leverage Ratio</b>				
<b>Greater Than</b>		<b>Less Than or Equal to</b>	<b>LIBOR Margin</b>	<b>Base Rate Margin</b>
		25%	145.0bps	45.0bps
25%	and	35%	155.0bps	55.0bps
35%	and	45%	165.0bps	65.0bps
45%	and	55%	190.0bps	90.0bps
55%	and		220.0bps	120.0bps

Although the interest rate on the 2013 Term Loan is variable, we fixed the base LIBOR interest rate on the 2013 Term Loan by entering into an interest rate swap agreement. On August 26, 2013, we entered into an ISDA Master Agreement with Bank of Montreal that fixed the base LIBOR interest rate on the 2013 Term Loan at 2.32% per annum for seven years. Accordingly, based upon our leverage ratio, as of December 31, 2013, the interest rate on the 2013 Term Loan was 4.22% per annum.

The 2013 Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to join certain subsidiaries as co-borrowers under the 2013 Credit Agreement and transactions with affiliates. The 2013 Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a minimum fixed charge coverage ratio, a maximum secured leverage ratio, a maximum leverage ratio, a maximum unencumbered leverage ratio, a minimum unencumbered debt service coverage ratio, a maximum ratio of certain investments to total assets and a maximum amount of secured recourse indebtedness. The 2013 Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the 2013 Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the 2013 Credit Agreement immediately due and payable, terminate the lenders' commitments to make loans under the 2013 Credit Agreement, and enforce any and all rights of the lenders or administrative agent under the 2013 Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the 2013 Term Loan financial covenants as of December 31, 2013.

We may use the proceeds of the 2013 Term Loan to finance the acquisition of real properties and for other permitted investments, to finance investments associated with Sponsored REITs, to refinance or retire existing indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the 2013 Credit Agreement.

2012 Credit Facility

As of December 31, 2013, the Company had bank notes payable to a group of banks for an unsecured credit facility comprised of both a revolving line of credit and a term loan (the 2012 Credit Facility). The revolving line of credit portion of the 2012 Credit Facility is for

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borrowings, at the Company's election, of up to \$500,000,000 (the 2012 Revolver ). The term loan portion of the 2012 Credit Facility is for \$400,000,000 (the 2012 Term Loan ). The 2012 Revolver includes an accordion feature that allows for up to \$250,000,000 of additional borrowing capacity subject to receipt of lender commitments and satisfaction of certain customary conditions.

On September 27, 2012, the Company and certain of its wholly-owned subsidiaries entered into an Amended and Restated Credit Agreement (as amended, the 2012 Credit Agreement ) with the lending institutions referenced in the 2012 Credit Agreement and those lenders from time to time party thereto and Bank of America, N.A., as administrative agent, letter of credit issuer and swing line lender, for the 2012 Credit Facility. On September 27, 2012, the Company drew down the entire \$400,000,000 under the 2012 Term Loan and \$82,000,000 under the 2012 Revolver. The Company's \$600,000,000 revolving credit facility (the 2011 Revolver ) that was



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scheduled to mature on February 22, 2014 was amended and restated in its entirety by the 2012 Credit Agreement and the \$482,000,000 in advances outstanding under the 2011 Revolver were repaid from the proceeds of the 2012 Credit Facility.

The 2012 Term Loan has a five year term that matures on September 27, 2017. Borrowings made pursuant to the 2012 Revolver may be revolving loans, swing line loans or letters of credit, the combined sum of which may not exceed \$500,000,000 outstanding at any time. Borrowings made pursuant to the 2012 Revolver may be borrowed, repaid and reborrowed from time to time for four years until September 27, 2016, the initial maturity date of the 2012 Revolver. The Company has the right to extend the initial maturity date of the 2012 Revolver by an additional 12 months, or until September 27, 2017, upon payment of a fee and satisfaction of certain customary conditions.

The 2012 Credit Facility bears interest at either (i) a rate equal to LIBOR plus 135 to 190 basis points depending on the Company's total leverage ratio at the time of the borrowing (LIBOR plus 165 basis points, or 1.82% at December 31, 2013) or (ii) a rate equal to the bank's base rate plus 35 to 90 basis points depending on our total leverage ratio at the time of the borrowing (the bank's base rate plus 65 basis points, or 3.90% at December 31, 2013). The 2012 Credit Facility also obligates the Company to pay an annual facility fee of 20 to 40 basis points depending on the Company's total leverage ratio (35 basis points at December 31, 2013). The facility fee is assessed against the total amount of the 2012 Credit Facility, or \$900,000,000. The actual amount of any applicable facility fee, LIBOR rate or base rate is determined based on the Company's total leverage ratio as described in the table below:

Greater Than	Leverage Ratio	Less Than or Equal to	Facility Fee	LIBOR Margin	Base Rate Margin
		25%	20.0bps	135.0bps	35.0bps
25%	and	35%	25.0bps	140.0bps	40.0bps
35%	and	45%	30.0bps	145.0bps	45.0bps
45%	and	55%	35.0bps	165.0bps	65.0bps
55%	and		40.0bps	190.0bps	90.0bps

For purposes of the 2012 Credit Facility, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 1/2 of 1.00%, and (iii) the one month LIBOR base rate for such day plus 1.00%.

Although the interest rate on the 2012 Credit Facility is variable, under the 2012 Credit Agreement, the Company fixed the base LIBOR interest rate on the 2012 Term Loan by entering into an interest rate swap agreement. On September 27, 2012, the Company entered into an ISDA Master Agreement with Bank of America, N.A. that fixed the base LIBOR interest rate on the 2012 Term Loan at 0.75% per annum for five years. Accordingly, based upon the Company's leverage ratio, as of December 31, 2013, the interest rate on the 2012 Term Loan was 2.40% per annum. In addition, based upon the Company's leverage ratio, as of December 31, 2013, there were borrowings of \$306,500,000 outstanding under the 2012 Revolver at a weighted average rate of 1.82% per annum. The weighted average interest rate on all amounts outstanding on the 2012 Revolver during the year ended December 31, 2013 was approximately 1.65% per annum.

As of December 31, 2012, there were borrowings of \$216,750,000 outstanding under the 2012 Revolver at a weighted average rate of 2.23% per annum. As of December 31, 2011, there were borrowings of \$449,000,000 outstanding under the 2011 Revolver at a weighted average rate of 2.24% per annum.

The 2012 Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to join certain subsidiaries as co-borrowers under the 2012 Credit Agreement and transactions with affiliates. The 2012 Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a minimum fixed charge coverage ratio, a maximum secured leverage ratio, a maximum leverage ratio, a maximum unencumbered leverage ratio, a minimum unencumbered debt service coverage ratio, a maximum ratio of certain investments to

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total assets and a maximum amount of secured recourse indebtedness. The 2012 Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the 2012 Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the 2012 Credit Agreement immediately due and payable, terminate the lenders' commitments to make loans under the 2012 Credit Agreement, and enforce any and all rights of the lenders or administrative agent under the 2012 Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the 2012 Credit Facility financial covenants as of December 31, 2013.

The Company may use the proceeds of the loans under the 2012 Credit Agreement to finance the acquisition of real properties and for other permitted investments; to finance investments associated with Sponsored REITs, to refinance or retire existing indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the 2012 Credit Agreement.

## Equity Securities

On May 15, 2013, we completed an underwritten public offering of 17,250,000 shares of our common stock (including 2,250,000 shares issued as a result of the full exercise of an overallotment option by the underwriter) at a price to the public of \$14.00 per share. The proceeds from this public offering, net of underwriter discounts and offering costs, totaled approximately \$230.7 million (after payment of offering costs of approximately \$10.8 million).

On May 6, 2010, we entered into an on demand offering sales agreement that allows us to offer and sell up to an aggregate gross sales price of \$75 million of our common stock from time to time, which we refer to as our ATM Sales Program. The on demand offering sales agreement for the ATM Sales Program was amended on April 27, 2012 in connection with our filing of a new Registration Statement on Form S-3. Sales of shares of our common stock depend upon market conditions and other factors determined by us and are deemed to be at the market offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the NYSE MKT or sales made to or through a market maker other than on an exchange, as well as in negotiated transactions, if and to the extent agreed by us in writing. We have no obligation to sell any shares of our common stock, and may at any time suspend solicitation and offers. During the year ended December 31, 2013, we did not sell any shares of our common stock under our ATM Sales Program. As of December 31, 2013, we were authorized to offer and sell a remainder of approximately \$34.3 million of our shares of common stock under the ATM Sales Program.

As of December 31, 2013, we had an automatic shelf registration statement on Form S-3 on file with the Securities and Exchange Commission relating to the offer and sale, from time to time, of an indeterminate amount of our common stock. From time to time, we expect to issue additional shares of our common stock under our automatic shelf registration statement or a different registration statement to fund the acquisition of additional properties, to pay down any existing debt financing and for other corporate purposes.

## Contingencies

From time to time, we may provide financing to Sponsored REITs in the form of a construction loan and/or a revolving line of credit secured by a mortgage. As of December 31, 2013, we were committed to fund up to \$111.8 million to six Sponsored REITs under such arrangements for

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the purpose of funding construction costs, capital expenditures, leasing costs or for other purposes, of which \$99.7 million has been drawn and is outstanding. We anticipate that advances made under these facilities will be repaid at their maturity date or earlier from long term financings of the underlying properties, cash flows from the underlying properties or another other capital event.

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

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Related Party Transactions

We intend to draw on the 2012 Credit Facility in the future for a variety of corporate purposes, including the acquisition of properties that we acquire directly for our portfolio and for Sponsored REIT Loans as described below.

Loans to Sponsored REITs

*Sponsored REIT Loans*

From time to time we may make secured loans ( Sponsored REIT Loans ) to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that each Sponsored REIT Loan will be repaid at maturity or earlier from long term financings of the underlying properties, cash flows from the underlying properties or some other capital event. Each Sponsored REIT Loan is secured by a mortgage on the underlying property and has a term of approximately two to three years. Except for the mortgage loan with a revolving line of credit component which bore interest at a fixed rate and was repaid in July 2012 and a mortgage loan which also bears interest at a fixed rate, advances under each Sponsored REIT Loan bear interest at a rate equal to the 30-day LIBOR rate plus an agreed upon amount of basis points and most advances also require a 50 basis point draw fee. In December 2011, the Company received a loan fee of \$762,000 at the time of the closing of the mortgage loan with a revolving line of credit component. In March 2012, a \$300,000 fee was collected in connection with a \$30 million draw from the revolving line of credit component. That loan was repaid in full during July 2012 and also included a 0.49% fee collected of \$520,000. In July 2012, the Company received a loan fee of \$300,630 at the time of the closing of the mortgage loan and a 0.98% fee will be collected on all amounts repaid under the loan.

Our Sponsored REIT Loans subject us to credit risk. However, we believe that our position as asset manager of each of the Sponsored REITs helps mitigate that risk by providing us with unique insight and the ability to rely on qualitative analysis of the Sponsored REITs. Before making a Sponsored REIT Loan, we consider a variety of subjective factors, including the quality of the underlying real estate, leasing, the financial condition of the applicable Sponsored REIT and local and national market conditions. These factors are subject to change and we do not apply a formula or assign relative weights to the factors. Instead, we make a subjective determination after considering such factors collectively.

Additional information about our Sponsored REIT Loans outstanding as of December 31, 2013, including a summary table of our Sponsored REIT Loans, is incorporated herein by reference to Note 4, Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans , in the Notes to Consolidated Financial Statements included in this report.

Other Considerations

We generally pay the ordinary annual operating expenses of our properties from the rental revenue generated by the properties. For the years ended December 31, 2013 and 2012, the rental income exceeded the expenses for each individual property, with the exception of our property located in Southfield, Michigan.

Our property located in Southfield, Michigan with approximately 215,000 square feet of rentable space was 41.4% leased at December 21, 2012. The property was sold on December 21, 2012. Rental revenue did not cover ordinary operating expenses for the period ended December 21, 2012. The property generated rental income of \$1,113,000 and had operating expenses of \$1,419,000 for the period ended December 21, 2012.

Table of ContentsRental Income Commitments

Our commercial real estate operations include the leasing of office buildings subject to leases with terms greater than one year. The leases thereon expire at various dates through 2025. Approximate future minimum rental income from non-cancelable operating leases as of December 31, 2013 is:

(in thousands)	Year ending December 31,
2014	\$ 176,681
2015	165,974
2016	155,794
2017	133,345
2018	117,955
Thereafter (2019-2026)	243,743
	\$ 993,492

Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2013.

Contractual Obligations	Total	Payment due by period (in thousands)					
		2014	2015	2016	2017	2018	Thereafter
2012 Revolver	\$ 306,500	\$	\$	\$ 306,500	\$	\$	\$
2012 Term Loan	400,000				400,000		
2013 Term Loan	220,000						220,000
Operating Leases	1,593	417	424	428	324		
Total	\$ 928,093	\$ 417	\$ 424	\$ 306,928	\$ 400,324	\$	\$ 220,000

The operating leases in the table above consist of our lease of corporate office space, which commenced September 1, 2010 and expires on August 31, 2017 and has one five-year renewal option. The lease includes a base annual rent and additional rent for our share of taxes and operating costs.

In addition to the amounts in the table above, from time to time, we may provide Sponsored REIT Loans to our Sponsored REITs. As of December 31, 2013, we were committed to fund Sponsored REIT Loans up to \$111.8 million to six Sponsored REITs, of which \$99.7 million in the aggregate was drawn and outstanding. Additional information about our Sponsored REIT Loans outstanding as of December 31, 2013, including a summary table of our Sponsored REIT Loans, is incorporated herein by reference to Note 4, Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans, in the Notes to Consolidated Financial Statements included in this report.





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Off-Balance Sheet Arrangements

Investments in Sponsored REITs

Previously we operated in the investment banking segment, and in December 2011, we discontinued those activities. The investment banking segment involved the structuring of real estate investments and broker/dealer services that included 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 Sponsored REITs through sale of preferred stock in private placements. On December 15, 2011, we announced that our broker/dealer subsidiary, FSP Investments LLC, would no longer sponsor the syndication of shares of preferred stock in newly-formed Sponsored REITs.

The Sponsored REITs own real estate, purchases of which were financed through the private placement of equity in those entities, typically through syndication. These Sponsored REITs are operated in a manner intended to qualify as real estate investment trusts. We earned fees related to the sale of preferred stock in the Sponsored REITs in these syndications. The Sponsored REITs issued both common stock and preferred stock. The common stock is owned by FSP Corp. Generally the preferred stock is owned by unaffiliated investors, however, we acquired an interest in preferred shares of five Sponsored REITs. In addition, directors and officers of FSP Corp., have from time to time invested in Sponsored REITs. Following consummation of the offerings, the preferred stockholders in each of the Sponsored REITs were entitled to 100% of the Sponsored REIT's cash distributions. Subsequent to the completion of the offering of preferred shares, except for the preferred stock we own, we do not share in any of the Sponsored REIT's earnings, or any related dividend, and the common stock ownership interests have virtually no economic benefit or risk. Prior to the completion of the offering of preferred shares, we shared in Sponsored REIT's earnings (and related dividends) to the extent of our ownership interest in the Sponsored REIT.

As a common stockholder, upon completion of the syndication, we have no rights to the Sponsored REIT's earnings or any related cash distributions. However, upon liquidation of a Sponsored REIT, we are entitled to our percentage interest as a common stockholder in any proceeds remaining after the preferred stockholders have recovered their investment. Our common stock percentage interest in each Sponsored REIT is less than 1%. The affirmative vote of the holders of a majority of the Sponsored REIT's preferred stockholders is required for any actions involving merger, sale of property, amendment to charter or issuance of additional capital stock. In addition, all of the Sponsored REITs allow the holders of more than 50% of the outstanding preferred shares to remove (without cause) and replace one or more members of that Sponsored REIT's board of directors.

Common stock investments in Sponsored REITs are consolidated while the entity is controlled by us. Following the commencement of syndication we exercise influence over, but do not control these entities and investments are accounted for using the equity method. Under the equity method of accounting, the cost basis is increased by its share of the Sponsored REITs' earnings, if any, prior to completion of the syndication. Equity in losses of Sponsored REITs was not recognized to the extent that the investment balance would become negative and distributions received are recognized as income once the investment balance is reduced to zero, unless there are assets held for syndication from the Sponsored REIT entity. Equity in losses or distributions received in excess of investment is recorded as an adjustment to the carrying value of the asset held for syndication. In December 2011, the Company discontinued syndicating newly-formed Sponsored REITs and had no Acquisition Loans outstanding at December 31, 2011.

We have acquired a preferred stock interest in five Sponsored REITs, including one that sold the property owned by it on December 20, 2012 and made a liquidating distribution to us, one we acquired on May 15, 2008 by cash merger and another we acquired on April 30, 2006 by merger. As a result of our common stock interest and our preferred stock interest in the remaining two Sponsored REITs, we exercise influence over, but do not control these entities. These preferred share investments are accounted for using the equity method. Under the equity method

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of accounting our cost basis is adjusted by our share of the Sponsored REITs' operations and distributions received. We also agreed to vote our preferred shares in any matter presented to a vote by the stockholders of these Sponsored REITs in the same proportion as shares voted by other stockholders of the Sponsored REITs.

At December 31, 2013, 2012 and 2011, we held a common stock interest in 14, 15 and 16 Sponsored REITs, respectively, all of which were fully syndicated and in which we no longer share economic benefit or risk.

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The table below shows our income and expenses from Sponsored REITs. Management fees of \$6,000, for the year ended December 31, 2011 and interest expense related to the Company's mortgage on property is eliminated in consolidation.

(in thousands)	Year Ended December 31, 2011	
Operating Data:		
Rental revenues	\$	1,482
Operating and maintenance expenses		480
Depreciation and amortization		610
Interest expense		197
Interest income		
	\$	195

During the year ended December 31, 2011, we recorded equity in income from two Sponsored REITs following commencement of the syndication of \$1.7 million.

From time to time, we may provide Sponsored REIT Loans to our Sponsored REITs. As of December 31, 2013, we were committed to fund Sponsored REIT Loans up to \$111.8 million to six Sponsored REITs, of which \$99.7 million in the aggregate was drawn and outstanding. Additional information about our Sponsored REIT Loans outstanding as of December 31, 2013, including a summary table of our Sponsored REIT Loans, is incorporated herein by reference to Note 4, Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans, in the Notes to Consolidated Financial Statements included in this report.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

**Market Rate Risk**

We are exposed to changes in interest rates primarily from our floating rate borrowing arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. As of December 31, 2013 and December 31, 2012, if market rates on our outstanding borrowings under our 2012 Revolver increased by 10% at maturity, or approximately 18 and 17 basis points, respectively, over the current variable rate, the increase in interest expense would decrease future earnings and cash flows by \$0.6 million and \$0.4 million annually, respectively. Based upon our leverage ratio, the interest rate on our borrowings on the 2012 Revolver as of December 31, 2013 was LIBOR plus 165 basis points, or 1.82% per annum. We do not believe that the interest rate risk represented by borrowings under our 2012 Revolver is material as of December 31, 2013.

Although the interest rates on the 2013 Term Loan and the 2012 Credit Facility are variable, the Company fixed the base LIBOR interest rates on the 2013 Term Loan and the 2012 Term Loan by entering into interest rate swap agreements. On August 26, 2013, the Company entered into an ISDA Master Agreement with Bank of Montreal that fixed the base LIBOR interest rate on the 2013 Term Loan at 2.32% per annum for seven years (the 2013 Interest Rate Swap). On September 27, 2012, the Company entered into an ISDA Master Agreement with Bank of America, N.A. that fixed the base LIBOR interest rate on the 2012 Term Loan at 0.75% per annum for five years (the 2012 Interest Rate Swap). Accordingly, based upon the Company's leverage ratios, as of December 31, 2013, the interest rate on the 2013 Term Loan was 4.22% per

annum and the interest rate on the 2012 Term Loan was 2.40% per annum. The fair value of the 2013 Interest Rate Swap and the 2012 Interest Rate Swap is affected by changes in market interest rates. We believe that we have mitigated interest rate risk with respect to the 2013 Term Loan through the 2013 Interest Rate Swap for the seven year term of the 2013 Term Loan. We believe that we have mitigated interest rate risk with respect to the 2012 Term Loan through the 2012 Interest Rate Swap for the five year term of the 2012 Term Loan. The 2013 Interest Rate Swap and the 2012 Interest Rate Swap were our only derivative instruments as of Decembr 31, 2013.

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The table below lists our derivative instruments, which are hedging variable cash flows related to interest on our 2013 Term Loan and our 2012 Term Loan as of December 31, 2013 (in thousands):

(in thousands)	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
2013 Interest Rate Swap	\$ 220,000	2.32%	Aug-13	Aug-20	\$ (2,044)
2012 Interest Rate Swap	\$ 400,000	0.75%	Sep-12	Sep-17	\$ 5,321

Our 2013 Term Loan and our 2012 Term Loan hedging transactions used derivative instruments that involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in either or both of the contracts. We require our derivatives contracts to be with counterparties that have investment grade ratings. The counterparty to the 2013 Interest Rate Swap is Bank of Montreal and the counterparty to the 2012 Interest Rate Swap is Bank of America, N.A., both of which have investment grade ratings. As a result, we do not anticipate that either counterparty will fail to meet its obligations. However, there can be no assurance that we will be able to adequately protect against the foregoing risks or that we will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

The 2012 Revolver has a term of four years and matures on September 27, 2016. We have the right to extend the initial maturity date of the 2012 Revolver by an additional 12 months, or until September 27, 2017, upon payment of a fee and satisfaction of certain customary conditions. The 2012 Revolver includes an accordion feature that allows for up to \$250,000,000 of additional borrowing capacity subject to receipt of lender commitments and satisfaction of certain customary conditions. Upon maturity, our future income, cash flows and fair values relevant to financial instruments will be dependent upon the balance then outstanding and prevalent market interest rates.

We borrow from time-to-time under the 2012 Revolver. These borrowings bear interest at either (i) a rate equal to LIBOR plus 135 to 190 basis points depending on our total leverage ratio at the time of the borrowing (LIBOR plus 165 basis points, or 1.82% at December 31, 2013) or (ii) a rate equal to the bank's base rate plus 35 to 90 basis points depending on our total leverage ratio at the time of the borrowing (the bank's base rate plus 65 basis points, or 3.90% at December 31, 2013). There were borrowings totaling \$306.5 million and \$216.8 million on the 2012 Revolver, at a weighted average rate of 1.82% and 1.66% outstanding at December 31, 2013 and December 31, 2012, respectively. We have drawn on the 2012 Revolver, and intend to draw on the 2012 Revolver in the future for a variety of corporate purposes, including the funding of Sponsored REIT Loans and the acquisition of properties that we acquire directly for our portfolio. Information about our Sponsored REIT Loans as of December 31, 2013 is incorporated herein by reference to Note 4, Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans, in the Notes to Consolidated Financial Statements included in this report.

The following table presents as of December 31, 2013 our contractual variable rate borrowings under our 2012 Revolver, which matures on September 27, 2016, under our 2012 Term Loan, which matures on September 27, 2017 and under our 2013 Term Loan, which matures on August 26, 2020. Under the 2012 Revolver, we have the right to extend the initial maturity date by an additional 12 months, or until September 27, 2017, upon payment of a fee and satisfaction of certain customary conditions.

	Payment due by period (in thousands)						
	Total	2014	2015	2016	2017	2018	Thereafter
2012 Revolver	\$ 306,500	\$	\$	\$ 306,500	\$	\$	\$
2012 Term Loan	400,000				400,000		

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2013 Term Loan	220,000							220,000
Total	\$ 926,500	\$	\$	\$ 306,500	\$	400,000	\$	220,000

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**Item 8. Financial Statements and Supplementary Data**

The information required by this item is included in the financial pages following the Exhibit index herein and incorporated herein by reference. Reference is made to the Index to Consolidated Financial Statements in Item 15 of Part IV.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

Not applicable.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2013, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Management's Annual Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officer and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

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- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December&