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FRANKLIN STREET PROPERTIES CORP /MA/
Form 8-K
August 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT PURSUANT
TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) August 30, 2004

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

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

000-32615

(Commission File Number)

04-3578653

(IRS Employer Identification No.)

401 Edgewater Place, Suite 200, Wakefield, MA

(Address of Principal Executive Offices)

01880-6210

(Zip Code)

(781) 557-1300

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

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

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

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

Pursuant to the requirements of Rule 3-14 of Regulation S-X, this Current Report on Form 8-K includes a Statement of Revenues over Certain Operating Expenses for FSP Addison Circle Corp., FSP Collins Crossing Corp., FSP Montague Business Center Corp., and FSP Royal Ridge Corp. for the six months ended June 30, 2004 (unaudited) and for the three years ended December 31, 2003 or, in the case of FSP Royal Ridge Corp., for the two years ended December 31, 2003, as well as pro forma financial information for FSP Corp. and the acquisition of 13 real estate investment trusts completed by FSP Corp. in June 2003. Because changes will likely occur in occupancy, rents and expenses experienced by the Target REITs and because the merger may not be completed, the historical financial statements and pro forma financial data presented should not be considered as a projection of future results.

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

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

FORWARD LOOKING STATEMENTS

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

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements Under Rule 3-14 of Regulation S-X

Statements of revenue over certain operating expenses for
FSP Addison Circle Corp.

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for the six months ended June 30, 2004 and 2003 (unaudited) F-1

Index to Statements of revenue over certain operating expenses
for the three years ended December 31, 2003 F-4

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Statements of revenue over certain operating expenses for
FSP Collins Crossing Corp.

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for the six months ended June 30, 2004 and 2003 (unaudited) F-10

Index to Statements of revenue over certain operating expenses
for the three years ended December 31, 2003 F-13

Statements of revenue over certain operating expenses for
FSP Montague Business Center Corp.

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for the six months ended June 30, 2004 and 2003 (unaudited) F-19

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for the three years ended December 31, 2003 F-22

Statements of revenue over certain operating expenses for
FSP Royal Ridge Corp.

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for the six months ended June 30, 2004 and 2003 (unaudited) F-28

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for the two years ended December 31, 2003 F-31

(b) Pro Forma Financial Information

Franklin Street Properties Corp. Unaudited Pro Forma
Condensed Combined Financial Statements F-37

(c) Exhibits

23.1 Consent of Braver and Company, P.C.

SIGNATURE

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

Date: August 30, 2004

REGISTRANT

FRANKLIN STREET PROPERTIES CORP.

By: /s/ George J. Carter

George J. Carter
President and Chief Executive Officer

FSP ADDISON CIRCLE CORP
JUNE 30, 2004 AND 2003

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FSP ADDISON CIRCLE CORP.
STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(unaudited)

| | 2004 | 2003 |
|---|-------------|-------------|
| | ----- | ----- |
| Revenue | | |
| Rental income | \$4,720,305 | \$4,332,624 |
| | ----- | ----- |
| | 4,720,305 | 4,332,624 |
| | ----- | ----- |
| Certain operating expenses | | |
| Taxes and insurance | 682,882 | 626,066 |
| Management fees | 110,572 | 109,520 |
| Administrative | 24,829 | 50,793 |
| Operating and maintenance | 669,470 | 708,688 |
| | ----- | ----- |
| | 1,487,753 | 1,495,067 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses | \$3,232,552 | \$2,837,557 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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FSP ADDISON CIRCLE CORP.
NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
(unaudited)

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a recently constructed ten-story Class "A" suburban office tower containing approximately 293,787 rentable square feet located on approximately 3.62 acres of land in

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Addison, Dallas County, Texas (the "Property"). The subject property was purchased by Champion Addison One, LP as a vacant tract of land on November 11, 1997. On September 30, 2002, Champion Addison One, LP sold the property to FSP Addison Circle Corp. (the "Company").

2. BASIS OF ACCOUNTING:

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

3. USE OF ESTIMATES:

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

4. CONCENTRATIONS OF RISKS:

For the six months ended June 30, 2004 and 2003, rental income was received from various lessees. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

5. LEASES:

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

| Year Ending December 31, ----- | Amount ----- |
|--------------------------------------|-----------------|
| 2004 | \$ 3,342,000 |
| 2005 | 6,636,000 |
| 2006 | 5,698,000 |
| 2007 | 3,101,000 |
| 2008 | 2,369,000 |
| Thereafter | 943,000 |
| | ----- |
| | \$ 22,089,000 |
| | ===== |

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

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FSP ADDISON CIRCLE CORP.
DECEMBER 31, 2003, 2002, AND 2001

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

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Addison Circle Corp.

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

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

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

In our opinion, these Statements referred to above presents fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2), of FSP Addison Circle Corp. for the years ended December 31, 2003, 2002, and 2001, in conformity with the basis of accounting described in Note 2.

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

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FSP ADDISON CIRCLE CORP.
STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

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YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| | 2003 | 2002 | 2001 |
|---|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| | (3) | (2) | (1) |
| REVENUE | | | |
| Rental income | \$8,579,509 | \$8,679,187 | \$8,353,790 |
| | ----- | ----- | ----- |
| CERTAIN OPERATING EXPENSES (Note 2): | | | |
| Taxes and insurance | 1,354,203 | 1,257,727 | 1,195,547 |
| Management fees | 216,292 | 158,765 | 135,923 |
| Administrative | 339,180 | 592,811 | 446,024 |
| Operating and maintenance | 1,227,418 | 880,036 | 905,373 |
| | ----- | ----- | ----- |
| | 3,137,093 | 2,889,339 | 2,682,867 |
| | ----- | ----- | ----- |
| Excess of revenue over certain operating expenses | \$5,442,416 | \$5,789,848 | \$5,670,923 |
| | ===== | ===== | ===== |

Property Owner:

- 3 - FSP Addison Circle Corp
- 2 - January 1, 2002 to September 29, 2002 - Champion Addison One, LP
September 30, 2002 to December 31, 2002 - FSP Addison Circle Corp.
- 1 - Champion Addison One, LP

The accompanying notes are an integral part of these financial statements

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FSP ADDISON CIRCLE CORP.

NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a recently constructed ten-story Class "A" suburban office tower containing approximately 293,787 rentable square feet located on approximately 3.62 acres of land in Addison, Dallas County, Texas (the "Property"). The subject property was purchased by Champion Addison One, LP as a vacant tract of land on November 11, 1997. On September 30, 2002, Champion Addison One, LP sold the property to FSP Addison Circle Corp. (the "Company").

2. BASIS OF ACCOUNTING:

The accompanying Statements have been prepared on the accrual basis of accounting. The Statements have been prepared in accordance with Rule 3-14 of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, these Statements exclude certain historical expenses not comparable to the

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operations of the Property after acquisition such as amortization, depreciation, interest, corporate expenses and certain other costs not directly related to the future operations of the Property.

3. REVENUE RECOGNITION:

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

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|-------------|-------------|
| | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- |
| Income from leases | \$7,152,563 | \$7,230,163 | \$7,168,574 |
| Straight-line rent adjustment | 321,385 | 358,091 | 293,420 |
| Reimbursable expenses | 1,080,115 | 1,092,574 | 887,543 |
| Other income | 25,446 | 1,359 | 4,253 |
| | ----- | ----- | ----- |
| Total | \$8,579,509 | \$8,682,187 | \$8,353,790 |
| | ===== | ===== | ===== |

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

4. USE OF ESTIMATES:

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

5. CONCENTRATIONS OF RISKS:

For the years ended December 31, 2003, 2002, and 2001, rental income was received from various lessees. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

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

6. LEASES:

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

| Year Ending December 31, | Amount |
|-----------------------------|--------|
|-----------------------------|--------|

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| | |
|------------|---------------|
| 2004 | \$ 6,684,000 |
| 2005 | 6,636,000 |
| 2006 | 5,698,000 |
| 2007 | 3,101,000 |
| 2008 | 2,369,000 |
| Thereafter | 943,000 |
| | ----- |
| | \$ 25,431,000 |
| | ===== |

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

7. ALLOCATION:

Allocation of the statements of revenue over certain operating expenses by property owner, is as follows:

| | For the period January 1, 2002 to September 29, 2002 | For the period September 30, 2002 to December 31, 2002 | Total 2002 |
|--|--|--|---------------|
| | ----- | ----- | ----- |
| Revenue | | | |
| Rental income | \$6,577,352 | \$2,101,835 | \$8,679,187 |
| | ----- | ----- | ----- |
| | 6,577,352 | 2,101,835 | 8,679,187 |
| | ----- | ----- | ----- |
| Certain operating expenses | | | |
| Taxes and insurance | 930,968 | 326,759 | 1,257,727 |
| Management fees | 105,094 | 53,671 | 158,765 |
| Administrative | 512,993 | 79,818 | 592,811 |
| Operating and maintenance | 649,685 | 230,351 | 880,036 |
| | ----- | ----- | ----- |
| | 2,198,740 | 690,599 | 2,889,339 |
| | ----- | ----- | ----- |
| Excess of revenue over certain operating expenses | \$4,378,612 | \$1,411,236 | \$5,789,848 |
| | ===== | ===== | ===== |

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

8. CASH DISTRIBUTION:

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The Company declared and paid dividends as follows:

| Years ----- | Cash Dividends ----- | Taxable Income / per share ----- | Return of Capital / per share ----- |
|----------------|-------------------------|--|---|
| 2003 | \$ 4,628,950 | \$ 6,145 | \$ 1,133 |
| 2002 | N/A | N/A | N/A |
| 2001 | N/A | N/A | N/A |

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FSP COLLINS CROSSING CORP.
JUNE 30, 2004 AND 2003

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FSP COLLINS CROSSING CORP.
STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(unaudited)

| | 2004 ----- | 2003 ----- |
|---|----------------------|----------------------|
| Revenue | | (1) |
| Rental income | \$3,923,538 ----- | \$2,568,934 ----- |
| | 3,923,538 ----- | 2,568,934 ----- |
| Certain operating expenses | | |
| Taxes and insurance | 477,650 | 340,783 |
| Management fees | 112,653 | 74,103 |
| Administrative | 11,754 | 9,648 |
| Operating and maintenance | 784,669 ----- | 410,658 ----- |
| | 1,386,726 ----- | 835,192 ----- |
| Excess of revenue over certain operating expenses | \$2,536,812 ===== | \$1,733,742 ===== |

Property owner:

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- 1 - March 3, 2003 to December 31, 2003 - FSP Collins Crossing Corp.
- 1 - January 1, 2003 to March 2, 2003 - Collins Crossing Limited Partnership

The accompanying notes are an integral part of these financial statements

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FSP COLLINS CROSSING CORP.
NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
(unaudited)

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Dallas County, Texas (the "Property"). The Property is an eleven-story Class "A" institutional quality suburban office tower containing approximately 298,766 square feet of rentable space. The Property was owned by Collins Crossing Limited Partnership and sold to FSP Collins Crossing Corp. (the "Company") on March 3, 2003.

2. BASIS OF ACCOUNTING:

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

3. USE OF ESTIMATES:

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

4. CONCENTRATIONS OF RISKS:

For the six months ended June 30, 2004 and 2003, rental income was from three lessees. As such, future receipts are dependent upon the financial strength of these lessees and their ability to perform under the lease agreements.

5. LEASES:

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

| Year Ending December 31, ----- | Amount ----- |
|--------------------------------------|-----------------|
| 2004 | \$ 3,351,000 |
| 2005 | 6,947,000 |

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| | |
|------------|---------------|
| 2006 | 6,036,000 |
| 2007 | 5,811,000 |
| 2008 | 5,811,000 |
| Thereafter | 8,688,000 |
| | ----- |
| | \$ 36,644,000 |
| | ===== |

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

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FSP COLLINS CROSSING CORP.
DECEMBER 31, 2003, 2002 AND 2001

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

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Collins Crossing Corp.

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

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

The accompanying Statements were prepared to comply with the requirements of Rule 3-14 of Regulation S-X of the Securities and Exchange Commission, and

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exclude certain expenses described in Note 2 and, therefore, are not intended to be a complete presentation of the Property's revenue and expenses.

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

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

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FSP COLLINS CROSSING CORP.
 STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
 YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| | 2003 | 2002 | 2001 |
|---|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| | (3) | (2) | (1) |
| Revenue | | | |
| Rental income | \$7,810,887 | \$7,719,461 | \$7,231,817 |
| | ----- | ----- | ----- |
| | 7,810,887 | 7,719,461 | 7,231,817 |
| | ----- | ----- | ----- |
| Certain operating expenses | | | |
| Taxes and insurance | 916,353 | 906,803 | 1,080,465 |
| Management fees | 211,726 | 148,990 | 136,467 |
| Administrative | 102,130 | 64,208 | 59,948 |
| Operating and maintenance | 1,392,632 | 1,165,129 | 1,320,489 |
| | ----- | ----- | ----- |
| | 2,622,841 | 2,285,130 | 2,597,369 |
| | ----- | ----- | ----- |
| Excess of revenue over certain operating expenses | \$5,188,046 | \$5,434,331 | \$4,634,447 |
| | ===== | ===== | ===== |

Property Owner:

- 3 - March 3, 2003 to December 31, 2003 - FSP Collins Crossing Corp.
- 3 - January 1, 2003 to March 2, 2003 - Collins Crossing Limited Partnership
- 2 - Collins Crossing Limited Partnership
- 1 - Collins Crossing Limited Partnership

The accompanying notes are an integral part of these financial statements

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FSP COLLINS CROSSING CORP.

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NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Dallas County, Texas (the "Property"). The Property is an eleven-story Class "A" institutional quality suburban office tower containing approximately 298,766 square feet of rentable space. The Property was owned by Collins Crossing Limited Partnership and sold to FSP Collins Crossing Corp. (the "Company") on March 3, 2003.

2. BASIS OF ACCOUNTING:

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

3. REVENUE RECOGNITION:

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

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|-------------|-------------|
| | 2003 | 2002 | 2001 |
| | ----- | ----- | ----- |
| Income from leases | \$6,822,916 | \$6,747,319 | \$6,415,650 |
| Straight-line rent adjustment | 332,181 | 294,140 | 252,620 |
| Reimbursable expenses | 655,790 | 678,002 | 563,547 |
| | ----- | ----- | ----- |
| Total | \$7,810,887 | \$7,719,461 | \$7,231,817 |
| | ===== | ===== | ===== |

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

4. USE OF ESTIMATES:

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

5. CONCENTRATIONS OF RISKS:

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

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lease agreements.

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

6. LEASES:

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

| Year Ending December 31, ----- | Amount ----- |
|--------------------------------------|-----------------|
| 2004 | \$ 6,701,000 |
| 2005 | 6,947,000 |
| 2006 | 6,036,000 |
| 2007 | 5,811,000 |
| 2008 | 5,811,000 |
| Thereafter | 8,688,000 |
| | ----- |
| | \$ 39,994,000 |
| | ===== |

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

7. ALLOCATION:

Allocation of the statements of revenue over certain operating expenses by Property owner, is as follows:

| | For the period January 1, 2003 to March 2, 2003 ----- | For the period March 3, 2003 to December 31, 2003 ----- | Total 2003 ----- |
|----------------------------|--|--|------------------------|
| Revenue | | | |
| Rental income | \$1,347,445 | \$6,463,442 | \$7,810,887 |
| | ----- | ----- | ----- |
| | 1,347,445 | 6,463,442 | 7,810,887 |
| | ----- | ----- | ----- |
| Certain operating expenses | | | |
| Taxes and insurance | 156,372 | 759,981 | 916,353 |
| Management fees | 24,885 | 186,841 | 211,726 |
| Administrative | 18,688 | 83,442 | 102,130 |
| Operating and maintenance | 275,996 | 1,116,636 | 1,392,632 |
| | ----- | ----- | ----- |
| | 475,941 | 2,146,900 | 2,622,841 |

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| | | | |
|---|------------|-------------|-------------|
| | ----- | ----- | ----- |
| Excess of revenue over certain operating expenses | \$ 871,504 | \$4,316,542 | \$5,188,046 |
| | ===== | ===== | ===== |

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

8. CASH DISTRIBUTION:

The Company declared and paid dividends as follows:

| Years | Cash Dividends | Taxable Income / per share | Return of Capital / per share |
|-------|----------------|----------------------------|-------------------------------|
| ----- | ----- | ----- | ----- |
| 2003 | \$ 2,018,218 | \$ | \$ 3,636 |
| 2002 | N/A | N/A | N/A |
| 2001 | N/A | N/A | N/A |

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FSP MONTAGUE BUSINESS CENTER CORP.
 JUNE 30, 2004 AND 2003

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FSP MONTAGUE BUSINESS CENTER CORP.
 STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
 SIX MONTHS ENDED JUNE 30, 2004 AND 2003
 (unaudited)

| | 2004 | 2003 |
|---------------|-------------|-------------|
| | ----- | ----- |
| Revenue | | |
| Rental income | \$2,295,842 | \$2,429,337 |
| | ----- | ----- |
| | 2,295,842 | 2,429,337 |

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| | | |
|---|-------------|-------------|
| Certain operating expenses | | |
| Taxes and insurance | 139,807 | 172,551 |
| Management fees | 68,104 | 67,955 |
| Administrative | 6,827 | 20,708 |
| Operating and maintenance | 55,920 | 85,432 |
| | ----- | ----- |
| | 270,658 | 346,646 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses | \$2,025,184 | \$2,082,691 |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements

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FSP MONTAGUE BUSINESS CENTER CORP.
 NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
 (unaudited)

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in San Jose, California (the "Property"). The Property consists of two adjacent single-story Class "A" suburban office buildings containing 145,951 square feet located on 9.95 acres of land. The Property was owned by Teacher's Insurance and Annuity Association of America and TIAA Realty, Inc. and sold to FSP Montague Business Center Corp (the "Company") on August 27, 2002.

2. BASIS OF ACCOUNTING:

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

3. USE OF ESTIMATES:

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

4. CONCENTRATIONS OF RISKS:

For the six months ended June 30, 2004, and 2003, rental income was from various lessees. As such, future receipts are dependent upon the financial

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

5. LEASES:

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

| Year Ending December 31, ----- | Amount ----- |
|--------------------------------------|-----------------|
| 2004 | \$ 1,991,000 |
| 2005 | 4,174,000 |
| 2006 | 4,390,000 |
| | ----- |
| | \$ 10,555,000 |
| | ===== |

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

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FSP MONTAGUE BUSINESS
CENTER CORP.
DECEMBER 31, 2003, 2002 AND 2001

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

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Montague Business Center Corp.

We have audited the accompanying statements of revenue over certain operating expenses (the "Statement") of FSP Montague Business Center Corp. for the years ended December 31, 2003, 2002 and 2001. These Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Statements based on our audits.

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

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

In our opinion, these Statements referred to above present fairly, in all material respects, the revenue over certain operating expenses (as described in Note 2) of FSP Montague Business Center Corp. for the years ended December 31, 2003, 2002 and 2001, in conformity with the basis of accounting described in Note 2.

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

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FSP MONTAGUE BUSINESS CENTER CORP.
 STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
 YEARS ENDED DECEMBER 31, 2003, 2002, AND 2001

| | 2003 ----- (3) | 2002 ----- (2) | 2001 ----- (1) |
|---|----------------------|----------------------|----------------------|
| Revenue: | | | |
| Rental income | \$4,807,583 ----- | \$4,362,159 ----- | \$3,822,325 ----- |
| | 4,807,583 ----- | 4,362,159 ----- | 3,822,325 ----- |
| Certain operating expenses (Note 2): | | | |
| Taxes and insurance | 338,516 | 200,690 | 223,859 |
| Management fees | 136,176 | 85,731 | 81,426 |
| Administrative | 34,697 | 35,803 | 4,169 |
| Operating and maintenance | 143,863 ----- | 90,070 ----- | 115,926 ----- |
| | 653,252 ----- | 412,294 ----- | 425,380 ----- |
| Excess of revenue over certain operating expenses | \$4,154,331 | \$3,949,865 | \$3,396,945 |

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=====

Property Owner:

- 3 - FSP Montague Business Center Corp.
- 2 - January 1, 2002 to August 26, 2002 - Teachers Insurance and Annuity Association of America August 27, 2002 to December 31, 2002 - FSP Montague Business Center Corp.
- 1 - Teachers Insurance and Annuity Association of America

The accompanying notes are an integral part of these financial statements

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

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in San Jose, California (the "Property"). The Property consists of two adjacent single-story Class "A" suburban office buildings containing 145,951 square feet located on 9.95 acres of land. The Property was owned by Teacher's Insurance and Annuity Association of America and TIAA Realty, Inc. and sold to FSP Montague Business Center Corp (the "Company") on August 27, 2002.

2. BASIS OF ACCOUNTING:

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

3. REVENUE RECOGNITION:

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

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|--------------------|--------------------|
| | 2003 | 2002 | 2001 |
| Income from leases | \$3,788,888 | \$3,472,106 | \$2,731,934 |
| Straight-line rent adjustment | 262,263 | 375,540 | 679,196 |
| Reimbursable expenses | 745,269 | 503,350 | 411,195 |
| Other income | 11,163 | 11,163 | -- |
| Total | \$4,807,583 | \$4,362,159 | \$3,822,325 |

The Company has retained substantially all of the risks and benefits of

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

4. USE OF ESTIMATES:

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

5. CONCENTRATIONS OF RISKS:

For the years ended December 31, 2003, 2002, and 2001, rental income was from various lessees. As such, future receipts are dependent upon the financial strength of the lessees and their ability to perform under the lease agreements.

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

6. LEASES:

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

| Year Ending December 31, ----- | Amount ----- |
|--------------------------------------|-----------------|
| 2004 | \$ 3,982,000 |
| 2005 | 4,174,000 |
| 2006 | 4,390,000 |
| | ----- |
| | \$ 12,546,000 |
| | ===== |

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

7. ALLOCATION:

Allocation of the statements of revenue over certain operating expenses by Property owner, is as follows:

| For the period January 1, 2002 to August 26, 2002 ----- | For the period August 27, 2002 to December 31, 2002 ----- | Total 2002 ----- |
|--|--|------------------------|
| | | |

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| | | | |
|---|-------------|-------------|-------------|
| Revenue | | | |
| Rental income | \$2,772,694 | \$1,589,465 | \$4,362,159 |
| | ----- | ----- | ----- |
| | 2,772,694 | 1,589,465 | 4,362,159 |
| | ----- | ----- | ----- |
| Certain operating expenses | | | |
| Taxes and insurance | 117,594 | 83,096 | 200,690 |
| Management fees | 44,055 | 41,676 | 85,731 |
| Administrative | 11,095 | 24,708 | 35,803 |
| Operating and maintenance | 60,751 | 29,319 | 90,070 |
| | ----- | ----- | ----- |
| | 233,495 | 178,799 | 412,294 |
| | ----- | ----- | ----- |
| Excess of revenue over certain operating expenses | \$2,539,199 | \$1,410,666 | \$3,949,865 |
| | ===== | ===== | ===== |

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

8. CASH DISTRIBUTION:

The Company declared and paid dividends as follows:

| Years | Cash Dividends | Taxable Income / per share | Return of Capital / per share |
|-------|----------------|-------------------------------|----------------------------------|
| ----- | ----- | ----- | ----- |
| 2003 | \$ 3,713,746 | \$ 11,119 | \$ -- |
| 2002 | 287,490 | | 861 |
| 2001 | N/A | N/A | N/A |

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FSP ROYAL RIDGE CORP.
JUNE 30, 2004 AND 2003

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FSP ROYAL RIDGE CORP.
 STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
 SIX MONTHS ENDED JUNE 30, 2004 AND 2003
 (unaudited)

| | 2004 | 2003 |
|---|-------------|-----------|
| | ----- | ----- |
| Revenue | | (1) |
| Rental income | \$1,749,600 | \$590,491 |
| | ----- | ----- |
| | 1,749,600 | 590,491 |
| | ----- | ----- |
| Certain operating expenses | | |
| Taxes and insurance | 163,900 | 147,830 |
| Management fees | 68,027 | 5,509 |
| Administrative | 9,361 | 2,035 |
| Operating and maintenance | 329,538 | 265,656 |
| | ----- | ----- |
| | 570,826 | 421,030 |
| | ----- | ----- |
| Excess of revenue over certain operating expenses | \$1,178,774 | \$169,461 |
| | ===== | ===== |

Property Owner:

- 1 - January 1, 2003, to January 29, 2003 - CK Royal 400, LLC
- 1 - January 30, 2003, to December 31, 2003 - FSP Royal Ridge Corp.

The accompanying notes are an integral part of these financial statements

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FSP ROYAL RIDGE CORP.
 NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
 (unaudited)

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Alpharetta, Georgia (the "Property"). The Property is a recently constructed six-story Class "A" institutional quality suburban office tower containing approximately 161,366 square feet of rentable space completed in December 2001. The Property was owned by CK Royal 400, LLC and sold to FSP Royal Ridge Corp. (the "Company") on January 30, 2003.

2. BASIS OF ACCOUNTING:

The accompanying Statement have been prepared on the accrual basis of accounting. The Statements have been prepared in accordance with Rule 3-14

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of Regulation S-X of the Securities and Exchange Commission for real estate properties acquired or to be acquired. Accordingly, these Statements exclude certain historical expenses not comparable to the operations of the Property after acquisition such as amortization, depreciation, interest, corporate expenses and certain other costs not directly related to future operations of the Property.

3. USE OF ESTIMATES:

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

4. CONCENTRATIONS OF RISKS:

For the six months ended June 30, 2004, and 2003, rental income was received from three lessees. As such, future receipts are dependent upon the financial strength of these lessees and their ability to perform under the lease agreements.

5. LEASES:

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

| Year Ending December 31, ----- | Amount ----- |
|--------------------------------------|-----------------|
| 2004 | \$ 1,012,000 |
| 2005 | 2,040,000 |
| 2006 | 2,071,000 |
| 2007 | 2,123,000 |
| 2008 | 2,176,000 |
| Thereafter | 6,750,000 |
| | ----- |
| | \$ 16,172,000 |
| | ===== |

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

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FSP ROYAL RIDGE CORP.
DECEMBER 31, 2003 AND 2002

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

INDEPENDENT AUDITORS' REPORT

To the Stockholders
FSP Royal Ridge Corp.

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

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

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

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

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

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FSP ROYAL RIDGE CORP.
STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2003 AND 2002

| | 2003 | 2002 |
|---------------|-------------|----------|
| | ----- | ----- |
| Revenue | (2) | (1) |
| Rental income | \$2,693,318 | \$ 3,084 |
| | ----- | ----- |

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| | | |
|---|-------------|-------------|
| | 2,693,318 | 3,084 |
| | ----- | ----- |
| Certain operating expenses | | |
| Taxes and insurance | 273,948 | 184,096 |
| Management fees | 73,071 | 33,212 |
| Administrative | 108,814 | 62,264 |
| Operating and maintenance | 649,604 | 526,358 |
| | ----- | ----- |
| | 1,105,437 | 805,930 |
| | ----- | ----- |
| Excess of revenue (deficit) over certain operating expenses | \$1,587,881 | \$(802,846) |
| | ===== | ===== |

Property Owner:

- 2 - January 1, 2003, to January 29, 2003 - CK Royal 400, LLC
- 2 - January 30, 2003, to December 31, 2003 - FSP Royal Ridge Corp.
- 1 - CK Royal 400, LLC

The accompanying notes are an integral part of these financial statements

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FSP ROYAL RIDGE CORP.

NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

1. DESCRIPTION OF THE PROPERTY:

The accompanying statements of revenue over certain operating expenses (the "Statements") include the operations of a commercial building located in Alpharetta, Georgia (the "Property"). The Property is a recently constructed six-story Class "A" institutional quality suburban office tower containing approximately 161,366 square feet of rentable space completed in December 2001. The Property was owned by CK Royal 400, LLC and sold to FSP Royal Ridge Corp. (the "Company") on January 30, 2003.

2. BASIS OF ACCOUNTING:

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

3. REVENUE RECOGNITION:

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

Year Ended December 31,

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| | 2003 | 2002 |
|-------------------------------|-----------------|--------------|
| | ----- | ----- |
| Income from leases | \$1,152,591 | \$ -- |
| Straight-line rent adjustment | 954,172 | -- |
| Reimbursable expenses | 586,555 | 3,084 |
| | ----- | ----- |
| Total | \$2,693,318 | \$ 3,084 |
| | ===== | ===== |

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

4. USE OF ESTIMATES:

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

5. CONCENTRATIONS OF RISKS:

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

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

6. LEASES:

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

| Year Ending December 31, | Amount |
|-----------------------------|---------------|
| ----- | ----- |
| 2004 | \$ 2,198,000 |
| 2005 | 2,040,000 |
| 2006 | 2,071,000 |
| 2007 | 2,123,000 |
| 2008 | 2,176,000 |
| Thereafter | 6,750,000 |
| | ----- |
| | \$ 17,358,000 |
| | ===== |

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

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7. ALLOCATION:

Allocation of the statements of revenue over certain operating expenses by Property owner, is as follows:

| | For the period January 1, 2003 to January 29, 2003 ----- | For the period January 30, 2003 to December 31, 2003 ----- | Total 2003 ----- |
|--|---|---|------------------------|
| Revenue | | | |
| Rental income | \$ 1,195 ----- | \$ 2,692,123 ----- | \$ 2,693,318 ----- |
| | 1,195 ----- | 2,692,123 ----- | 2,693,318 ----- |
| Certain operating expenses | | | |
| Taxes and insurance | 19,046 | 254,902 | 273,948 |
| Management fees | 2,652 | 70,419 | 73,071 |
| Administrative | 4,736 | 104,078 | 108,814 |
| Operating and maintenance | 87,616 ----- | 561,988 ----- | 649,604 ----- |
| | 114,050 ----- | 991,387 ----- | 1,105,437 ----- |
| (Deficit) excess of revenue over certain operating expenses | \$ (112,855) ===== | \$ 1,700,736 ===== | \$ 1,587,881 ===== |

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FSP ROYAL RIDGE CORP.

NOTES ACCOMPANYING THE STATEMENTS OF REVENUE OVER CERTAIN OPERATING EXPENSES

8. CASH DISTRIBUTION:

The Company declared and paid dividends as follows:

| Years | Cash Dividends ----- | Taxable Income / per share ----- | Return of Capital / per share ----- |
|-------|-------------------------|--|---|
| 2003 | \$ 1,375,196 | \$ | \$ 4,623 |
| 2002 | N/A | N/A | N/A |

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FSP Corp. Unaudited Condensed Consolidated Pro Forma Financial Statements

Overview F-38

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Overview

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

The unaudited pro forma consolidated financial statement data are not necessarily indicative of what the company's actual financial position or results of operations would have been as of the date or for the period indicated, nor do they purport to represent the company's financial position or results of operations as of or for any future period. The unaudited pro forma consolidated financial statement data should be read in conjunction with the financial statements and pro forma financial statements included in this Form 8-K, and FSP Corp.'s Annual Report on Form 10-K for the year ended December 31, 2003 and FSP Corp.'s Quarterly Report on Form 10-Q for the quarterly period ending June 30, 2004.

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

| (in thousands) | Historical (FSP Corp.) | Purchase of Target REITs | Adjustm |
|---|---------------------------|-----------------------------|---------|
| <hr style="border-top: 1px dashed black;"/> | | | |
| Assets: | | | |
| Real estate assets, net | \$ 444,508 | \$ 135,185 (d) | \$ 500 |
| Acquired favorable leases, net | -- | 9,571 (d) | -- |
| Acquired lease origination costs, net | 6,898 | 4,319 (d) | -- |
| Cash and cash equivalents | 59,000 | 6,664 (d) | (500) |
| Restricted cash | 1,028 | -- | -- |
| Tenant rents receivable, net | 630 | -- | -- |

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| | | | |
|---|------------|-------------|-------|
| Straight line rents receivable, net | 4,941 | -- | -- |
| Prepaid expenses | 1,007 | -- | -- |
| Investment in non-consolidated REITs | 4,301 | -- | -- |
| Deferred leasing commissions, net | 1,082 | -- | -- |
| Office computers and equipment, net | 431 | -- | -- |
| ----- | | | |
| Total assets | \$ 523,826 | \$ 155,739 | \$ -- |
| ===== | | | |
| Liabilities and stockholders' equity | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 7,982 | \$ -- | \$ -- |
| Accrued compensation | 1,817 | -- | -- |
| Tenant security deposits | 1,028 | -- | -- |
| ----- | | | |
| Total liabilities | 10,827 | -- | -- |
| ----- | | | |
| Stockholders' equity | | | |
| Preferred Stock | -- | -- | -- |
| Common Stock | 5 | 1 (i) | -- |
| Additional paid-- in capital | 512,813 | 155,738 (i) | -- |
| Retained earnings (distributions in excess of earnings) | (225) | -- | -- |
| Accumulated undistributed net realized gain on sale of properties | 406 | -- | -- |
| ----- | | | |
| Total stockholders' equity | 512,999 | 155,739 | -- |
| ----- | | | |
| Total liabilities and stockholders' equity | \$ 523,826 | \$ 155,739 | \$ -- |
| ===== | | | |

See accompanying notes to condensed consolidated pro forma financial statements.

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

| (in thousands, except per share amounts) | Historical (FSP Corp.) | Target REITs (1) | Adjustments |
|--|---------------------------|------------------|----------------|
| ----- | | | |
| Revenue: | | | |
| Rental income | \$ 35,067 | \$12,690 | \$ (1,080) (d) |
| Syndication fees | 8,448 | -- | -- |
| Transaction fees | 8,742 | -- | -- |

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| | | | |
|--|-----------|----------|------------|
| Sponsored REIT income | 2,334 | -- | -- |
| Other | 742 | -- | (118) (e) |
| ----- | | | |
| Total revenue | 55,333 | 12,690 | (1,198) |
| ----- | | | |
| Expenses: | | | |
| Real estate operating expenses | 6,771 | 2,252 | (118) (e) |
| Real estate taxes and insurance | 4,567 | 1,465 | -- |
| Depreciation and amortization | 6,697 | -- | 1,500 (e) |
| | | | 465 (e) |
| Sponsored REIT expenses | 1,678 | -- | -- |
| Selling, general and administrative | 3,132 | -- | 420 (b) |
| Commissions | 4,287 | -- | -- |
| Shares issued as compensation | 162 | -- | -- |
| Interest | 517 | -- | -- |
| ----- | | | |
| Total expenses | 27,811 | 3,717 | 2,267 |
| ----- | | | |
| Income(loss) before interest, taxes and discontinued operations, | 27,522 | 8,973 | (3,465) |
| Interest income | 349 | -- | -- |
| Taxes on income (a) (b) | (976) | -- | -- |
| ----- | | | |
| Net income | \$ 26,895 | \$ 8,973 | \$ (3,465) |
| ===== | | | |
| Weighted average shares outstanding, basic and diluted | 49,627 | -- | 10,895 (i) |
| ===== | | | |
| Net income per share basic and diluted | \$ 0.54 | \$ -- | \$ -- |
| ===== | | | |

See accompanying notes to condensed consolidated pro forma financial statements.

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

| (in thousands, except per share amounts) | Historical (FSP Corp.) | Target REITs (m) | 2003 Merger (Pro Forma) Adjustment (j) |
|--|------------------------|------------------|--|
| ----- | | | |
| Revenue: | | | |
| Rental income | \$49,789 | \$23,890 | \$15,204 |
| Syndication fees | 14,631 | -- | -- |

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| | | | |
|---|----------|----------|------------|
| Transaction fees | 14,745 | -- | -- |
| Sponsored REIT income | 3,452 | -- | -- |
| Other | 1,151 | -- | -- |
| ----- | | | |
| Total revenue | 83,768 | 23,890 | 15,204 |
| ===== | | | |
| Expenses: | | | |
| Real estate operating expenses | 10,425 | 4,635 | 3,997 |
| Real estate taxes and insurance | 6,264 | 2,883 | 2,667 |
| Depreciation and amortization | 9,265 | -- | 3,298 |
| Sponsored REIT expenses | 2,620 | -- | -- |
| Selling, general and administrative | 5,711 | -- | -- |
| Commissions | 7,291 | -- | -- |
| Interest | 1,036 | -- | -- |
| ----- | | | |
| Total expenses | 42,612 | 7,518 | 9,962 |
| ===== | | | |
| Income (loss) before interest, taxes, discontinued operations and gain on sales of properties | 41,156 | 16,372 | 5,242 |
| Interest income | 367 | -- | 117 |
| Taxes on income (a) (b) | (1,700) | -- | -- |
| Income from discontinued operations | 195 | -- | -- |
| Gain on sale of properties, net of tax | 6,362 | -- | -- |
| ----- | | | |
| Net income | \$46,380 | \$16,372 | \$ 5,359 |
| ===== | | | |
| Weighted average shares outstanding, basic and diluted | 39,214 | -- | 10,416 (j) |
| ===== | | | |
| Basic and diluted net income per share | \$ 1.18 | \$ -- | \$ -- |
| ===== | | | |

See accompanying notes to condensed consolidated pro forma financial statements.

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Franklin Street Properties Corp.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

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

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The mergers will be treated as a purchase of assets and each Target REIT's assets and liabilities will be recorded on FSP Corp.'s books at their fair value as of the effective date of the mergers.

PRO FORMA ADJUSTMENTS

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

- (a) FSP Corp. and each of the Target REITs have elected to be, and are qualified as, a real estate investment trust for federal income tax purposes. Each entity has met the various required tests; therefore, no provision for federal or state income taxes have been reflected on real estate operations.
- (b) FSP Corp. has subsidiaries which are not in the business of real estate operations. Those subsidiaries are taxable as real estate investment trust subsidiaries (each, a "TRS") and are subject to income taxes at regular tax rates. The taxes on income shown in the pro forma statements of operations are the taxes on income incurred by the TRS. There are no material items that would cause a deferred tax asset or a deferred tax liability.

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Franklin Street Properties Corp.

NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS (Unaudited)

- (c) The costs of the mergers to FSP Corp. are estimated at \$500,000 and are reflected as paid as of June 30, 2004 and are capitalized to the assets acquired.
- (d) The cost of the property (including capitalized merger costs of \$500,000) has been allocated to real estate investments, acquired lease origination costs and acquired favorable leases. Acquired lease origination costs represent the value associated with acquiring an in-place lease (i.e. the market cost to execute a similar lease, including leasing commission, legal, vacancy and other related costs). Acquired favorable leases represents the value associated with a lease which has a rental stream with above market rates. The value assigned to buildings land and to leases approximates their fair value.

The following schedule shows the allocation of the aggregate cost of the properties based upon appraised values. Depreciation and amortization for the Target REITs is based on a preliminary allocation of the purchase price to real estate investments and to the leases acquired. The allocation is subject to change as additional information is obtained. An increase in the allocation to lease origination costs will result in an increase in amortization expense. For each \$1,000,000 increase in lease origination costs, the related pro forma amortization expense will increase by approximately \$200,000 per year.

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| (in thousands) | | | Depreciation and Amortization for the Six months ended June 30, 2004 | for Year December |
|----------------------------------|------------|-----------------|---|-------------------------|
| Asset Category | Amount | Life (years) | | |
| Land | \$ 18,707 | N/A | \$ -- | \$ |
| Buildings and improvements | 116,978 | 39 | 1,500 | |
| Real estate investments | 135,685 | | 1,500 | |
| Acquired lease origination costs | 4,319 | 3 - 6 | 465 | |
| Acquired favorable leases | 9,571 | 3 - 6 | 1,080 | |
| Total lease costs | 13,890 | | 1,545 | |
| Total | \$ 149,575 | | \$ 3,045 | \$ |

In addition to real estate assets, FSP Corp. is also acquiring approximately \$6,664,000 in cash from the Target REITs. Other assets and liabilities, net, are expected to be immaterial at the effective date of the mergers.

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

| Six Months Ended June 30, 2004 | Year Ended December 31, 2003 |
|-----------------------------------|---------------------------------|
| \$ 118,000 | \$ 204,000 |

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Franklin Street Properties Corp.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

- (f) Interest of \$273,000 charged by FSP Corp. on loans to the two Target REITs syndicated in 2003 has been eliminated from revenue and expenses. See footnote (g) for additional interest expense incurred during syndications.
- (g) Income and expenses directly related to the syndication of two Target REITs in 2003 have been eliminated. A summary of these items is as follows:

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

| | | |
|--------------------------|--------------|--------------|
| Loan origination fees | \$ 4,902,000 | |
| Other organization costs | 656,000 | |
| Total transaction fees | | \$ 5,558,000 |

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| | | |
|-----------------------------|--------------|---------------|
| Syndication fees, gross | \$ 6,820,000 | |
| Syndication fees, rebates | (1,417,000) | |
| | ----- | |
| Total syndication fees, net | | 5,403,000 |
| | | ----- |
| Total revenue adjustment | | \$ 10,961,000 |
| | | ===== |

The two Target REITs have accounted for these fees in their financial statements as follows:

| | | |
|--|--------------|--------------|
| Interest expense | \$ 4,902,000 | |
| Real estate acquisition costs | 656,000 | |
| | ----- | |
| | | \$ 5,558,000 |
| | | ===== |
| Gross syndication fees recorded as an offset to additional paid-in capital | | \$ 6,820,000 |
| | | ===== |

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

- (h) Represents the elimination of FSP Corp's proportionate share of Sponsored REIT revenue and expense while the Target REITs were being syndicated by FSP Corp.

| (in thousands) | Six Months Ended June 30, 2004 | Year Ended December 31, 2003 |
|-------------------------|-----------------------------------|---------------------------------|
| Sponsored REIT revenue | \$ -- | \$ 1,468 |
| Sponsored REIT expenses | -- | 1,208 |
| | ----- | ----- |
| | \$ -- | \$ 260 |
| | ===== | ===== |

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Franklin Street Properties Corp.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

- (i) Approximately 10,894,994 million shares of FSP common stock, par value of \$0.0001 per share, will be issued in exchange for the 1822.5 outstanding shares of Target REIT preferred Stock in connection with the mergers.
- (j) Represents the revenue and expenses of the 13 sponsored REITs acquired by FSP Corp. for the period January 1, 2003 to May 31, 2003, the date of acquisition.

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

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| | |
|---------------------------------|-----------|
| Revenue | \$ 15,204 |
| Real estate operating expenses | (3,997) |
| Real estate taxes and insurance | (2,667) |
| Deprciation and amortization | (3,298) |
| Interest income | 117 |
| | ----- |
| Net income | \$ 5,359 |
| | ===== |

Weighted average shares outstanding are adjusted by approximately 10,416,000 shares which is the impact of the shares assumed to be issued on January 1, 2003.

- (k) The following table summarizes the assets acquired from the Target REITs as of June 30, 2004.

(in thousands)

| | Montague | Addison Circle | Royal Ridge | Collins Crossing |
|-----------------------------------|-----------|----------------|-------------|------------------|
| | ----- | ----- | ----- | ----- |
| Assets: | | | | |
| Real estate, cost (1) | \$ 20,000 | \$ 54,500 | \$ 26,075 | \$ 48,500 |
| Cash | 2,035 | 1,677 | 967 | 1,985 |
| Other assets and liabilities, net | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Total assets acquired | \$ 22,035 | \$ 56,177 | \$ 27,042 | \$ 50,485 |
| | ===== | ===== | ===== | ===== |

- (1) Cost of property at appraised value including land, buildings and acquired leases.

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Franklin Street Properties Corp.
NOTES TO CONDENSED CONSOLIDATED PRO FORMA FINANCIAL STATEMENTS
(Unaudited)

- (1) The following information represents the historical revenue and certain operating expenses of the Target REITs for the six months ended June 30, 2004.

(in thousands)

| | Montague | Addison Circle | Royal Ridge | Collins Crossing |
|---------------|----------|----------------|-------------|------------------|
| | ----- | ----- | ----- | ----- |
| Revenue: | | | | |
| Rental | \$ 2,296 | \$ 4,720 | \$ 1,750 | \$ 3,924 |
| | ----- | ----- | ----- | ----- |
| Total Revenue | 2,296 | 4,720 | 1,750 | 3,924 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |

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| | | | | |
|---------------------------------|----------|----------|----------|----------|
| Rental operating expenses | 131 | 805 | 407 | 909 |
| Real estate taxes and insurance | 140 | 683 | 164 | 478 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 271 | 1,488 | 571 | 1,387 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 2,025 | \$ 3,232 | \$ 1,179 | \$ 2,537 |
| | ===== | ===== | ===== | ===== |

(m) The following information represents the historical revenue and certain operating expenses for the Target REITs for the year ended December 31, 2003.

(in thousands)

| | Montague | Addison Circle | Royal Ridge | Collins Crossing |
|---------------------------------|----------|----------------|-------------|------------------|
| | ----- | ----- | ----- | ----- |
| Revenue: | | | | |
| Rental | \$ 4,807 | \$ 8,579 | \$ 2,693 | \$ 7,811 |
| | ----- | ----- | ----- | ----- |
| Total Revenue | 4,807 | 8,579 | 2,693 | 7,811 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Rental operating expenses | 314 | 1,783 | 831 | 1,707 |
| Real estate taxes and insurance | 339 | 1,354 | 274 | 916 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 653 | 3,137 | 1,105 | 2,623 |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 4,154 | \$ 5,442 | \$ 1,588 | \$ 5,188 |
| | ===== | ===== | ===== | ===== |

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