FRANKLIN STREET PROPERTIES CORP /MA/
Form 8-K
August 31, 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 31, 2004

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

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation)

000-32615	04-3578653
(Commission File Number)	(IRS Employer Identification No.)

401 Edgewater Place, Suite 200, Wakefield, MA	01880-6210
(Address of Principal Executive Offices)	(Zip Code)

(781) 557-1300

(Registrant's Telephone Number, Including Area Code)

Not Applicable

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

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

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

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

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

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

Item 8.01 Other Events

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 Target REITs will become stockholders of FSP Corp.

The accompanying financial statements provide historical results of the Target REITs. This information is voluntarily and supplementally provided by FSP Corp. to assist the Target REIT stockholders in their review of the financial statements contained in a registration statement on Form S-4 to be filed by FSP Corp. as contemplated by the Merger Agreement.

In connection with the mergers, the Registrant is hereby filing as part of this Current Report on Form 8-K the financial statements and 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, 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 3-05 of Regulation S-X

(see Index to Financial Statements at F-1)

Financial Statements of FSP Addison Circle Corp.

Financial Statements of FSP Collins Crossing Corp.

Financial Statements of FSP Montague Business Center Corp.

Financial Statements of FSP Royal Ridge Corp.

(b) Pro Forma Financial Information

N/A

(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 31, 2004

REGISTRANT

FRANKLIN STREET PROPERTIES CORP.

/s/ George J. Carter

George J. Carter
President and Chief Executive Officer

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FSP Addison Circle Corp.
Financial Statements
June 30, 2004

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FSP Addison Circle Corp.
Balance Sheets
(unaudited)

(in thousands, except shares and par value amounts)	June 30, 2004
Assets:	
Real estate investments, at cost:	
Land	$ 4,365
Buildings and improvements	46,057
	50,422
Less accumulated depreciation	2,116
Real estate investments, net	48,306
Acquired real estate leases, net of accumulated amortization of $508 and $349	1,230
Cash and cash equivalents	5,592
Restricted cash	20
Tenant rents receivable	--
Step rent receivable	561
Deferred leasing costs, net of accumulated amortization of $4 and $0	119
Prepaid expenses and other assets	87
Total assets	$ 55,915
Liabilities and Stockholders' Equity:	
Liabilities:	
Accounts payable and accrued expenses	$ 1,357
Dividends payable	--
Tenant security deposits	20
Total liabilities	1,377
Commitments and Contingencies	
Stockholders' Equity:	
Preferred Stock, $.01 par value, 636 shares authorized, issued and outstanding	--
Common Stock, $.01 par value, 1 share authorized, issued and outstanding	--
Additional paid-in capital	58,383
Retained deficit and dividends in excess of earnings	(3,845)
Total Stockholders' Equity	54,538
Total Liabilities and Stockholders' Equity	$ 55,915

See accompanying notes to financial statements.

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FSP Addison Circle Corp.
Statement of Income
(unaudited)

(in thousands, except shares and per share amounts)	For the Three Months Ended June 30, 2004	2003	2
Revenues:			
Rental	$2,218	$2,226	$4,
Expenses:			
Rental operating expenses	383	516	
Real estate taxes and insurance	338	305	
Depreciation and amortization	382	350	
Total expenses	1,103	1,171	2,
Income before interest	1,115	1,055	2,
Interest income	20	15	
Net income attributable to preferred shareholders	$1,135	$1,070	$2,
Weighted average number of preferred shares outstanding, basic and diluted	636	636	
Net income per preferred share, basic and diluted	$1,785	$1,682	$3,

See accompanying notes to financial statements.

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FSP Addison Circle Corp.
Statements of Cash Flows

(unaudited)

(in thousands)	For the Six Months June 30, 2004	June
Cash flows from operating activities:		
Net Income	$ 2,514	$
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Depreciation and amortization	760	
Changes in operating assets and liabilities:		
Restricted cash	15	
Tenant rent receivables	24	
Step rent receivable	(141)	
Prepaid expenses and other assets	(36)	
Accounts payable and accrued expenses	(1,963)	
Tenant security deposits	(15)	
Payment of deferred leasing costs	(84)	
Net cash provided by (used for) operating activities	$ 1,074	$
Cash flows from investing activities:		
Purchase of real estate assets	(161)	
Net cash used for investing activities	(161)	
Cash flows from financing activities:		
Dividends to stockholders	(1,287)	
Net cash used for financing activities	(1,287)	
Net decrease in cash and cash equivalents	(374)	
Cash and cash equivalents, beginning of period	5,966	
Cash and cash equivalents, end of period	$ 5,592	$

See accompanying notes to financial statements.

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

1. Organization and Basis of Presentation

FSP Addison Circle Corp. (the "Company") was organized on August 21, 2002 as a

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

BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included.

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

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

ESTIMATES AND ASSUMPTIONS

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

2. Net Income Per Share

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

3. Income Taxes

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

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

4. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases) property and equipment ("Capital Expenditures"), and payments for deferred leasing commissions; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property ("Cash-funded reserves"). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures and payments for deferred leasing commissions and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

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

The calculation of cash available for distribution is shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2004	2003	2004	2003
Net income	$ 1,135	$ 1,070	$ 2,514	$ 2,136
Depreciation and amortization	382	350	760	724
Straight line rent	(116)	(80)	(141)	(161)
Purchase of land and building	--	--	(161)	--
Proceeds from (establish) funded reserve	44	--	284	--
Payment of deferred lease origination costs	(44)	--	(123)	--
Cash Available for Distribution	$ 1,401	$ 1,340	$ 3,133	$ 2,699

The Company's cash distributions for the periods ended June 30, 2004 and December 31, 2003 are summarized as follows:

(in thousands)

Quarter Paid	2004	2003
First Quarter	$ 1,265	$ 850
Second Quarter	1,288	1,302
Third Quarter	-	1,292
Fourth Quarter	-	1,277
Dividends Paid	$ 2,553	$ 4,271

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

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

5. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were $20,149 and $20,049 for the three months ended June 30, 2004 and 2003, respectively and $40,207 and $39,826 for the six months ended June 30, 2004 and 2003, respectively.

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

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

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Addison Circle Corp.

We have audited the accompanying balance sheets of FSP Addison Circle Corp. as of December 31, 2003 and 2002 and the related statements of operations, changes in stockholders' equity and cash flows for the year ended December 31, 2003 and for the period from August 21, 2002 (date of inception) to December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

FSP Addison Circle Corp.
Balance Sheets

(in thousands, except shares and par value amounts)	December 31, 2003
Assets:	

Real estate investments, at cost:	
Land	$ 4,365
Buildings and improvements	45,895
	50,260
Less accumulated depreciation	1,519
Real estate investments, net	48,741
Acquired real estate leases, net of accumulated amortization of $349 and $27	1,389
Cash and cash equivalents	3,330
Cash-funded reserves	2,636
Restricted cash	35
Tenant rents receivable	25
Step rent receivable	421
Deferred leasing costs	39
Prepaid expenses and other assets	51
Total assets	$ 56,667
Liabilities and Stockholders' Equity:	
Liabilities:	
Accounts payable and accrued expenses	$ 2,055
Dividends payable	1,265
Tenant security deposits	35
Total liabilities	3,355
Commitments and Contingencies:	
Stockholders' Equity:	
Preferred Stock, $.01 par value, 636 shares authorized, issued and outstanding	--
Common Stock, $.01 par value, 1 share authorized, issued and outstanding	--
Additional paid-in capital	58,383
Retained deficit and dividends in excess of earnings	(5,071)
Total Stockholders' Equity	53,312
Total Liabilities and Stockholders' Equity	$ 56,667

See accompanying notes to financial statements.

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FSP Addison Circle Corp.
Statements of Operations

(in thousands, except shares and per share amounts)	For the Year Ended December 31, 2003	For the P August 21, (date of incep December 31
Revenue:		
Rental	$8,554	$ 2,
Expenses:		
Rental operating expenses	1,783	
Real estate taxes and insurance	1,354	
Depreciation and amortization	1,497	
Interest	--	3,
Total expenses	4,634	4,
Income (loss) before interest income	3,920	(2,
Interest income	85	
Net income (loss) before common dividends	4,005	(2,
Dividends paid to common shareholders	--	
Net income (loss) attributable to preferred shareholders	$4,005	$(3,
Weighted average number of preferred shares outstanding, basic and diluted	636	
Net income (loss) per preferred share, basic and diluted	$6,297	$(5,

See accompanying notes to financial statements.

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

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Deficit and Dividends in Excess of Earnings	T Stock E

Private offering of 636 shares, net	$ --	$ --	$58,383	$ --	$
Dividends	--	--	--	(1,070)	
Net loss	--	--	--	(2,869)	
Balance, December 31, 2002	--	--	58,383	(3,939)	
Dividends	--	--	--	(5,137)	
Net income	--	--	--	4,005	
Balance, December 31, 2003	$ --	$ --	$58,383	$(5,071)	$

See accompanying notes to financial statements.

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FSP Addison Circle Corp.
Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 2003	(
Cash flows from operating activities:		
Net income (loss)	$ 4,005	
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,497	
Changes in operating assets and liabilities:		
Cash-funded reserve	83	
Restricted cash	9	
Tenant rent receivables	(25)	
Step rent receivable	(322)	
Prepaid expenses and other assets	29	
Accounts payable and accrued expenses	165	
Tenant security deposits	(9)	
Payment of deferred leasing costs	(39)	
Net cash provided by (used for) operating activities	5,393	
Cash flows from investing activities:		
Purchase of real estate assets	(25)	
Purchase of acquired real estate leases	--	
Net cash used for investing activities	(25)	

Cash flows from financing activities:	
Proceeds from sale of company stock	--
Syndication costs	--
Dividends to stockholders	(4,721)
Proceeds from long-term debt	--
Principal payments on long-term debt	--
Net cash (used for) provided by financing activities	(4,721)
Net increase in cash and cash equivalents	647
Cash and cash equivalents, beginning of period	2,683
Cash and cash equivalents, end of period	$ 3,330
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	$ --
Disclosure of non-cash financing activities:	
Dividends declared but not paid	$ 1,265

See accompanying notes to financial statements.

FSP Addison Circle Corp.
Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

ESTIMATES AND ASSUMPTIONS

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

REAL ESTATE AND DEPRECIATION

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

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

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

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

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

FSP Addison Circle Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

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

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

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

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

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

ACQUIRED REAL ESTATE LEASES

Acquired real estate leases are the estimated value of legal and leasing costs related to acquired leases that were included in the purchase price when the Company acquired the Property. Under SFAS No. 141 "Business Combinations" ("SFAS 141"), which was approved by the Financial Accounting Standards Board ("FASB") in June 2001, the Company is required to segregate these costs from its investment in real estate. The Company subsequently amortizes these costs on a straight-line basis over the remaining life of the related leases. Amortization expense of $349,000 and $27,000 is included in depreciation and amortization in the Company's Statements of Operations for the year ended December 31, 2003 and the period ended December 31, 2002, respectively.

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

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

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

2. Summary of Significant Accounting Policies (continued)

CASH AND CASH EQUIVALENTS

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

CASH-FUNDED RESERVES

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

RESTRICTED CASH

Restricted cash consists of tenant security deposits.

MARKETABLE SECURITIES

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

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

CONCENTRATION OF CREDIT RISKS

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

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

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

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

FINANCIAL INSTRUMENTS

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

2. Summary of Significant Accounting Policies (continued)

STEP RENT RECEIVABLE

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

TENANT RENTS RECEIVABLE

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

SYNDICATION FEES

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

REVENUE RECOGNITION

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

(in thousands)	Year ended December 31, 2003	Period Ended December, 31 2002
Income from leases	$7,153	$1,823
Straight-line rent adjustment	322	99
Reimbursable expenses	1,079	180
Total	$8,554	$2,102

INTEREST INCOME

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

INCOME TAXES

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

2. Summary of Significant Accounting Policies (continued)

NET INCOME PER SHARE

The Company follows Statement of Financial Accounting Standards No. 128

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

3. Recent Accounting Standards

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

4. Income Taxes

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

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

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

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

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

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

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

(in thousands)	Year Ended December 31, 2003	Period Ended December 31, 2002

Cash dividends paid	$ 4,721	$ 220
Less: Return of Capital	(734)	(220)
Dividends paid deduction	$ 3,987	$ --

FSP Addison Circle Corp.
Notes to Financial Statements

5. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases), property and equipment ("Capital Expenditures"), and payments for deferred leasing commissions; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property ("Cash-funded reserves"). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures, payments for deferred leasing commissions and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

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

The calculation of cash available for distribution is shown in the following table:

(in thousands)	Period Ended December 31, 2003	2002
Net income (loss)	$ 4,005	$ (2,869)
Depreciation and amortization	1,497	370
Straight line rent	(322)	(99)
Proceeds from offering of shares, net	--	58,383
Purchase of land and building	(25)	(50,235)
Proceeds from (establish) funded reserve	83	(2,719)
Payment of deferred lease origination costs	--	(1,738)

Cash Available for Distribution	$ 5,238	$ 1,093

The Company's cash distributions for the periods ended December 31, 2003 and 2002 are summarized as follows:

(in thousands)

Quarter Paid	2003	2002
First Quarter	$ 850	$ --
Second Quarter	1,302	--
Third Quarter	1,292	--
Fourth Quarter	1,277	220
Dividends Paid	$ 4,721	$ 220

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

FSP Addison Circle Corp.
Notes to Financial Statements

6. Capital Stock

PREFERRED STOCK

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

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

COMMON STOCK

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

7. Related Party Transactions

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

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

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

During 2002, the Company borrowed and repaid in full a note payable to FSP, principal of $51,500,000, with interest equal to the Citizens Bank base rate. Interest paid to FSP was $240,000. The average interest rate during the time the loan was outstanding was 4.44%.

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

The Company paid a dividend of $313,000 to the common shareholder relating to earnings of the Company prior to the completion of the offering of preferred shares.

8. Commitments and Contingencies

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

(in thousands)	Year Ending December 31,	Amount
	2004	$ 6,684
	2005	6,636
	2006	5,698
	2007	3,101
	2008	2,369
	Thereafter	943
		$ 25,431

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

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

FSP Collins Crossing Corp.
Financial Statements
June 30, 2004

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FSP Collins Crossing Corp.
Balance Sheet
(unaudited)

(in thousands,except shares and par value amounts)

Assets:

Real estate investments, at cost:
Land
Buildings and improvements

Less accumulated depreciation

Real estate investments, net

Acquired real estate leases, net of accumulated amortization of $588 and $349, respectively
Acquired favorable real estate lease, net of accumulated amortization of $1,266 and $791, respect

Cash and cash equivalents
Cash-funded reserves
Restricted cash
Tenant rents receivable
Step rent receivable
Prepaid expenses and other assets

Total assets

Liabilities and Stockholders' Equity:

Liabilities:
Accounts payable and accrued expenses
Dividends payable
Tenant security deposits

Total liabilities

Commitments and Contingencies

Stockholders' Equity:
Preferred Stock, $.01 par value, 555 shares authorized, issued and outstanding
Common Stock, $.01 par value, 1 share authorized, issued and outstanding
Additional paid-in capital
Retained deficit and dividends in excess of earnings

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

See accompanying notes to financial statements.

FSP Collins Crossing Corp.
Statement of Income
(unaudited)

	For t Three Mo Ende June 3
(in thousands, except shares and per share amounts)	2004

Revenues:

Rental	$1,747
Expenses:	
Rental operating expenses	506
Real estate taxes and insurance	238
Depreciation and amortization	321
Interest	--
Total expenses	1,065
Income (loss) before interest income	682
Interest income	18
Net income (loss) before common dividends	700
Dividends paid to common shareholders	--
Net income (loss) attributable to preferred shareholders	$ 700
Weighted average number of preferred shares outstanding, basic and diluted	555
Net income (loss) per preferred share, basic and diluted	$1,261

See accompanying notes to financial statements

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FSP Collins Crossing Corp.
Statements of Cash Flows
(unaudited)

(in thousands)	For the Six Mo June 30, 2004
Cash flows from operating activities:	
Net Income (loss)	$ 1,452
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	648
Amortization of favorable lease	475
Changes in operating assets and liabilities:	
Restricted cash	--
Tenant rent receivables	14
Step rent receivable	(166)
Prepaid expenses and other assets	(25)

Accounts payable and accrued expenses	(1,599)
Tenant security deposits	--
Net cash provided by (used for) operating activities	799
Cash flows from investing activities:	
Purchase of real estate assets	(9)
Purchase of acquired real estate leases	--
Net cash used for investing activities	(9)
Cash flows from financing activities:	
Proceeds from sale of company stock	--
Syndication costs	--
Dividends to stockholders	(1,234)
Proceeds from long-term debt	--
Principal payments on long-term debt	--
Net cash (used for) provided by financing activities	(1,234)
Net increase (decrease) in cash and cash equivalents	(444)
Cash and cash equivalents, beginning of period	5,066
Cash and cash equivalents, end of period	$ 4,622
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	$ --

See accompanying notes to financial statements.

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

1. Organization and Basis of Presentation

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

BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included.

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

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

ESTIMATES AND ASSUMPTIONS

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

2. Net Income Per Share

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

3. Income Taxes

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

4. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization, and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases): property and equipment ("Capital Expenditures"), payments for deferred leasing commissions and payments for deferred lease origination costs; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property (cash-funded reserves). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures, payments of deferred leasing commissions and payments for deferred lease origination costs and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

CAD should not be considered as an alternative to net income (determined in accordance with GAAP), as an indicator of the Company's financial performance, nor as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs. Other real estate companies may define CAD in a different manner. It is at the Company's discretion to retain a portion of CAD for operational needs. Management believes in order to facilitate a clear understanding of the results of the Company, CAD should be examined in connection with net income and cash flows from operating, investing and financing activities in the financial statements.

The calculation of CAD is shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2004	2003	2004	2003
Net income	$ 700	$ (2,585)	$ 1,452	$ (2,343)
Depreciation and amortization	321	266	648	354
Amortization of favorable leases	218	--	475	--
Straight line rent	(83)	(83)	(167)	(111)
Proceeds from offering of shares, net	--	29,880	--	51,100
Purchase of land and building	(9)	(192)	(9)	(45,379)
Establish funded reserve	--	(2,130)	--	(2,130)
Cash Available for Distribution	$ 1,147	$ 25,156	$ 2,399	$ 1,491

The Company's cash distributions for the period ended June 30, 2004 are summarized as follows:

(in thousands)

Quarter Paid	2004	2003
First Quarter	$1,331	$ --
Second Quarter	1,234	209
Third Quarter	--	1,036
Fourth Quarter	--	1,147
Dividends Paid	$2,565	$2,392

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

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

5. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were $18,654 and $18,714 for the three months ended June 30, 2004 and 2003, respectively and $37,551 and $24,970 for the six months ended June 30, 2004 and 2003, respectively.

FSP Collins Crossing Corp.
Financial Statements
December 31, 2003

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

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Collins Crossing Corp.

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

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

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

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

FSP Collins Crossing Corp.
Balance Sheet

(in thousands, except shares and par value amounts)

Assets:

Real estate investments, at cost:
   Land
   Buildings and improvements

   Less accumulated depreciation

      Real estate investments, net

Acquired real estate leases, net of accumulated amortization of $349
Acquired favorable real estate lease, net of accumulated amortization of $791
Cash and cash equivalents
Cash-funded reserves
Restricted cash
Tenant rents receivable

Step rent receivable	
Prepaid expenses and other assets	
Total assets	
Liabilities and Stockholders' Equity:	
Liabilities:	
Accounts payable and accrued expenses	
Dividends payable	
Tenant security deposits	
Total liabilities	
Commitments and Contingencies:	
Stockholders' Equity:	
Preferred Stock, $.01 par value, 555 shares authorized, issued and outstanding	
Common Stock, $.01 par value, 1 share authorized, issued and outstanding	
Additional paid-in capital	
Retained deficit and dividends in excess of earnings	
Total Stockholders' Equity	
Total Liabilities and Stockholders' Equity	

See accompanying notes to financial statements.

FSP Collins Crossing Corp.
Statement of Operations

(in thousands, except shares and per share amounts)	For the Period January 16, 2003 (date of inception) to December 31, 2003
Revenue:	
Rental	$ 5,672
Total revenue	5,672
Expenses:	
Rental operating expenses	1,399
Real estate taxes and insurance	760
Depreciation and amortization	1,080

Interest	3,444
Total expenses	6,683
Net loss before interest income	(1,011)
Interest income	35
Net loss before common dividends	(976)
Dividends paid to common shareholder	373
Net loss attributable to preferred shareholders	$(1,349)
Weighted average number of preferred shares outstanding, basic and diluted	555
Net loss per preferred share, basic and diluted	$(2,431)

See accompanying notes to financial statements.

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

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Deficit and Dividends in Excess of Earnings	Sto
Private offering of 555 shares, net	$ --	$ --	$ 51,100	$ --	$
Dividends	--	--	--	(3,723)	
Net loss	--	--	--	(976)	
Balance, December 31, 2003	$ --	$ --	$ 51,100	$ (4,699)	$

See accompanying notes to financial statements.

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FSP Collins Crossing Corp.
Statement of Cash Flows

(in thousands)	For the Period January 16, 2003 (date of inception) to December 31, 2003
Cash flows from operating activities:	
Net loss	$ (976)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	1,080
Amortization of favorable lease	791
Changes in operating assets and liabilities:	
Cash-funded reserve	(2,124)
Restricted cash	(115)
Tenant rents receivable	(25)
Step rent receivable	(279)
Prepaid expenses and other assets	(43)
Accounts payable and accrued expenses	1,467
Tenant security deposits	115
Net cash used for operating activities	(109)
Cash flows from investing activities:	
Purchase of real estate assets	(38,246)
Purchase of acquired real estate lease	(2,267)
Purchase of acquired favorable real estate lease	(5,144)
Net cash used for investing activities	(45,657)
Cash flows from financing activities:	
Proceeds from sale of company stock	55,510
Syndication costs	(4,410)
Dividends to stockholders	(2,392)
Proceeds from long-term debt	45,175
Principal payments on long-term debt	(45,175)
Net cash provided by financing activities	48,708
Net increase in cash and cash equivalents	2,942
Cash and cash equivalents, beginning of period	--
Cash and cash equivalents, end of period	$ 2,942
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	$ 3,444
Disclosure of non-cash financing activities:	
Dividends declared but not paid	$ 1,331

See accompanying notes to financial statements.

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FSP Collins Crossing Corp.
Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

ESTIMATES AND ASSUMPTIONS

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

REAL ESTATE AND DEPRECIATION

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

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

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

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

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

FSP Collins Crossing Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

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

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

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

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

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

ACQUIRED REAL ESTATE LEASES

Acquired real estate leases represents the estimated value of legal and leasing costs related to acquired leases that were included in the purchase price when the Company acquired the Property. Under SFAS No. 141 "Business Combinations" ("SFAS 141"), which was approved by the Financial Accounting Standards Board ("FASB") in June 2001, the Company is required to segregate these costs from its investment in real estate. The Company subsequently amortizes these costs on a straight-line basis over the weighted-average remaining life of the related leases. Amortization expense of $349,000 is included in Depreciation and Amortization in the Company's Statement of Operations for the period ended December 31, 2003.

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

(in thousands)	
Cost	$ 2,267
Accumulated amortization	349
Book value	$ 1,918

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

(in thousands)	
2004	$ 418
2005	$ 418
2006	$ 418
2007	$ 418
2008	$ 244

FSP Collins Crossing Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

ACQUIRED FAVORABLE REAL ESTATE LEASE

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

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

(in thousands)	
Cost	$ 5,144
Accumulated amortization	791
Book value	$ 4,353

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

(in thousands)	
2004	$ 950
2005	$ 950
2005	$ 950

2007	$ 950
2008	$ 553

CASH AND CASH EQUIVALENTS

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

CASH-FUNDED RESERVES

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

RESTRICTED CASH

Restricted cash consists of tenant security deposits.

MARKETABLE SECURITIES

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

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

2. Summary of Significant Accounting Policies (continued)

CONCENTRATION OF CREDIT RISKS

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

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

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

INET	80%

FINANCIAL INSTRUMENTS

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

STEP RENT RECEIVABLE

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

TENANT RENTS RECEIVABLE

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

SYNDICATION FEES

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

FSP Collins Crossing Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REVENUE RECOGNITION

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

(in thousands)	Period Ended December, 31 2003
Income from leases	$ 5,559
Straight-line rent adjustment	279
Reimbursable expenses	625
Amortization of favorable lease	(791)
Total	$ 5,672

INTEREST INCOME

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

INCOME TAXES

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

NET INCOME PER SHARE

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

3. Recent Accounting Standards

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

4. Income Taxes

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

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

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

(in thousands)	Period Ended December 31, 2003

GAAP net loss		$ (976)
Add:	Book depreciation and amortization	1,080
	Amortization for favorable lease	791
	Deferred rent	481
Less:	Tax depreciation and amortization	(812)
	Straight-line rents	(279)
Taxable income subject to dividend requirement		$ 285

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

(in thousands)	Period Ended December 31, 2003
Cash dividends paid	$ 2,392
Less: Return of Capital	(2,107)
Dividends paid deduction	$ 285

FSP Collins Crossing Corp.
Notes to Financial Statements

5. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization, and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases): property and equipment ("Capital Expenditures"), payments for deferred leasing commissions and payments for deferred lease origination costs; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property (cash-funded reserves). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures, payments of deferred leasing commissions and payments for deferred lease origination costs and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income. CAD should not be considered as an alternative to net income (determined in accordance with GAAP), as an indicator of the Company's financial performance, nor as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs. Other real estate companies may define CAD in a different manner. It is at the Company's discretion to retain a portion of CAD for operational needs. Management believes in order to facilitate a clear understanding of the results of the Company, CAD should be examined in connection with net income and cash flows from operating, investing and financing activities in the financial statements.

The calculation of CAD is shown in the following table:

(in thousands)	Period ended December 31, 2003
Net loss	$ (976)
Depreciation and amortization	1,080
Amortization of favorable lease	791
Straight line rent	(279)
Proceeds from offering of shares, net	51,100
Purchase of land and building	(38,246)
Establish funded reserve	(2,124)
Purchase of acquired real estate leases	(2,267)
Purchase of acquired favorable real estate leases	(5,144)
Cash Available for Distribution	$ 3,935

The Company's cash distributions for the period ended December 31, 2003 are summarized as follows:

(in thousands)

Quarter Paid	Total Cash Dividends
Second Quarter of 2003	$ 209
Third Quarter of 2003	1,036
Fourth Quarter of 2003	1,147
Dividends Paid in 2003	2,392
First Quarter of 2004	1,331
Dividends Declared in 2003 (1)	$ 3,723

(1) The Company declared a dividend payable to stockholders of record as of December 31, 2003.

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

FSP Collins Crossing Corp.
Notes to Financial Statements

6. Capital Stock

PREFERRED STOCK

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

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

COMMON STOCK

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

7. Related Party Transactions

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

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

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

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

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

The Company paid a dividend of $373,000 to the common shareholder relating to earnings of the Company prior to the completion of the offering of preferred shares.

FSP Collins Crossing Corp.

Notes to Financial Statements

8. Commitments and Contingencies

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

(in thousands)	Year Ending December 31,	Amount
	2004	$ 6,701
	2005	6,947
	2006	6,036
	2007	5,811
	2008	5,811
	Thereafter	8,688
		$ 39,994

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

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

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

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FSP Montague Business Center Corp.
Balance Sheet
(unaudited)

(in thousands,except shares and par value amounts)	June 30, 2004	December 31, 2003
Assets:		
Real estate investments, at cost:		
Land	$ 10,500	$ 10,500
Buildings and improvements	10,499	10,499
	20,999	20,999
Less accumulated depreciation	493	359
Real estate investments, net	20,506	20,640
Acquired real estate leases, net of accumulated amortization of $197 and $143	268	322
Acquired favorable real estate lease, net accumulated amortization of $2,325 and $1,744	2,907	3,488
Cash and cash equivalents	3,612	3,594
Step rent receivable	459	392
Prepaid expenses and other assets	32	14
Total assets	$ 27,784	$ 28,450
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable and accrued expenses	$ 401	$ 411
Dividends payable	--	960
Total liabilities	401	1,371
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock, $.01 par value, 334 shares authorized, issued and outstanding	--	--
Common Stock, $.01 par value, 1 share authorized, issued and outstanding	--	--
Additional paid-in capital	30,652	30,652
Retained deficit and dividends in excess of earnings	(3,269)	(3,573)
Total Stockholders' Equity	27,383	27,079
Total Liabilities and Stockholders' Equity	$ 27,784	$ 28,450

See accompanying notes to financial statements.

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

(in thousands, except shares and per share amounts)	For the Three Months Ended June 30, 2004	2003	Si[x Months Ended] J[une 30,] 2004
Revenues:			
Rental	$849	$662	$1,715
Expenses:			
Rental operating expenses	75	91	130
Real estate taxes and insurance	70	73	140
Depreciation and amortization	94	83	188
Total expenses	239	247	458
Income (loss) before interest income	610	415	1,257
Interest income	14	6	29
Net income (loss) before common dividends	624	421	1,286
Dividends paid to common shareholders	--	--	--
Net income (loss) attributable to preferred shareholders	$624	$421	$1,286
Weighted average number of preferred shares outstanding, basic and diluted	334	334	334
Net income (loss) per preferred share, basic and diluted	$1,868	$1,260	$3,850

See accompanying notes to financial statements.

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FSP Montague Business Center Corp.
Statements of Cash Flows
(unaudited)

(in thousands)	For the Six Months Ende June 30, 2004	June 30,
Cash flows from operating activities:		
Net Income	$1,286	$1,33
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	188	18
Amortization of favorable leases	581	58
Changes in operating assets and liabilities:		
Step rent receivable	(67)	(16
Prepaid expenses and other assets	(19)	(
Accounts payable and accrued expenses	(970)	(93
Net cash provided by (used for) operating activities	999	1,00
Cash flows from investing activities:		
Purchase of real estate assets	--	-
Purchase of acquired real estate leases	--	-
Net cash used for investing activities	--	-
Cash flows from financing activities:		
Proceeds from sale of company stock	--	-
Syndication costs	--	-
Dividends to stockholders	(980)	(91
Proceeds from long-term debt	--	-
Principal payments on long-term debt	--	-
Net cash (used for) provided by financing activities	(980)	(91
Net increase in cash and cash equivalents	18	8
Cash and cash equivalents, beginning of period	3,594	3,33
Cash and cash equivalents, end of period	$3,612	$3,41

See accompanying notes to financial statements.

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

1. Organization and Basis of Presentation

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

BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included.

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

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

ESTIMATES AND ASSUMPTIONS

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

2. Net Income Per Share

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

3. Income Taxes

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

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

4. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases) property and equipment ("Capital Expenditures"), and payments for deferred leasing commissions; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property (cash-funded reserves). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures and payments of deferred leasing commissions and payments for deferred lease origination costs and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

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

The calculation of Cash available for distribution is shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2004	2003	2004	2003
Net income	$ 624	$ 421	$ 1,286	$ 1,336
Depreciation and amortization and amortization of favorable lease	385	664	769	765
Straight line rent	(17)	(66)	(67)	(163)
Cash Available for Distribution	$ 992	$ 1,019	$ 1,988	$ 1,938

The Company's cash distributions for the periods ended December 31, 2003 and 2002 are summarized as follows:

(in thousands)

Quarter Paid	2004	2003
First Quarter	$ 960	$ 902

Second Quarter	980	914
Third Quarter		941
Fourth Quarter		957
Dividends Paid	$ 1940	$ 3,714

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

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

5. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were $11,336 and $11,795 for the three months ended June 30, 2004 and 2003, respectively and $22,701 and $22,652 for the six months ended June 30, 2004 and 2003 respectively.

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

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

INDEPENDENT AUDITOR'S REPORT

To the Stockholders
FSP Montague Business Center Corp.

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

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

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

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

FSP Montague Business Center Corp.
Balance Sheets

(in thousands, except shares and par value amounts)	December 31, 2003	Decem 20
Assets:		
Real estate investments, at cost:		
Land	$ 10,500	$
Buildings and improvements	10,499	
	20,999	
Less accumulated depreciation	359	

Real estate investments, net	20,640	
Acquired real estate lease, net of accumulated amortization of $143 and $36	322	
Acquired favorable real estate lease, net of accumulated amortization of $1,744 and $581	3,488	
Cash and cash equivalents	1,587	
Cash-funded reserves	2,007	
Step rent receivable	392	
Prepaid expenses and other assets	14	
Total assets	$ 28,450	$
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable and accrued expenses	$ 411	$
Dividends payable	960	
Total liabilities	1,371	
Commitments and Contingencies:		
Stockholders' Equity:		
Preferred Stock, $.01 par value, 334 shares authorized, issued and outstanding	--	
Common Stock, $.01 par value, 1 share authorized, issued and outstanding	--	
Additional paid-in capital	30,652	
Retained deficit and dividends in excess of earnings	(3,573)	
Total Stockholders' Equity	27,079	
Total Liabilities and Stockholders' Equity	$ 28,450	$

See accompanying notes to financial statements.

FSP Montague Business Center Corp.
Statements of Operations

(in thousands, except shares and per share amounts)	For the Year Ended December 31, 2003	For t July (date of Decemb

Revenue:	
Rental	$3,645
Total revenue	3,645
Expenses:	
Rental operating expenses	314
Real estate taxes and insurance	339
Depreciation and amortization	368
Interest	--
Total expenses	1,021
Net income (loss) before interest income	2,624
Interest income	45
Net income (loss) before common dividends	2,669
Dividends paid to common shareholders	--
Net income (loss) attributable to preferred shareholders	$2,669
Weighted average number of preferred shares outstanding, basic and diluted	334
Net income (loss) per preferred share, basic and diluted	$7,991

See accompanying notes to financial statements.

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

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Defic and Dividend in Excess of Earnings
Private offering of 334 shares, net	$ --	$ --	$30,652	$ --
Dividends	--	--	--	(1,222)

Net loss	--	--	--	(1,249)
Balance, December 31, 2002	--	--	30,652	(2,471)
Dividends	--	--	--	(3,771)
Net income	--	--	--	2,669
Balance, December 31, 2003	$ --	$ --	$30,652	$(3,573)

See accompanying notes to financial statements.

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FSP Montague Business Center Corp.
Statements of Cash Flows

(in thousands)	For the Year Ended December 31, 2003	For the Pe July 22, (date of incep December 2002
Cash flows from operating activities:		
Net income (loss)	$ 2,669	$ (1,24
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	368	13
Amortization of favorable lease	1,164	58
Changes in operating assets and liabilities:		
Cash-funded reserves	366	(2,37
Step rent receivables	(262)	(13
Prepaid expenses and other assets	11	(2
Accounts payable and accrued expenses	383	2
Net cash provided by (used for) operating activities	4,699	(3,03
Cash flows from investing activities:		
Purchase of real estate assets	(355)	(20,64
Purchase of acquired real estate leases	--	(46
Purchase of acquired favorable real estate leases	--	(5,23
Net cash used for investing activities	(355)	(26,34
Cash flows from financing activities:		
Proceeds from sale of company stock	--	33,41
Syndication costs	--	(2,75
Dividends to stockholders	(3,714)	(32

Proceeds from long-term debt	--	26,00
Principal payments on long-term debt	--	(26,00
Net cash (used for) provided by financing activities	(3,714)	30,33
Net increase in cash and cash equivalents	630	95
Cash and cash equivalents, beginning of period	957	-
Cash and cash equivalents, end of period	$ 1,587	$ 95
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ --	$ 1,94
Disclosure of non-cash financing activities:		
Dividends declared but not paid	$ 960	$ 90

See accompanying notes to financial statements.

FSP Montague Business Center Corp.
Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

ESTIMATES AND ASSUMPTIONS

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

REAL ESTATE AND DEPRECIATION

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

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

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

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

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

FSP Montague Business Center Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

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

(in thousands)		
Price per Offering Memorandum	$	26,000
Plus: Acquisition fees		167
Plus: Other acquisition costs		174
Total Acquisition Costs	$	26,341

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

Land	$	10,500
Building		10,144
Acquired real estate lease		465
Acquired favorable lease		5,232
Total reported on Balance Sheet	$	26,341

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

ACQUIRED REAL ESTATE LEASE

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

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

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

(in thousands)	
2004	$ 107
2005	$ 107
2006	$ 107

FSP Montague Business Center Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

ACQUIRED FAVORABLE REAL ESTATE LEASE

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

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

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

(in thousands)	
2004	$ 1,163
2005	$ 1,163

2006	$ 1,162

CASH AND CASH EQUIVALENTS

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

CASH-FUNDED RESERVES

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

MARKETABLE SECURITIES

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

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

CONCENTRATION OF CREDIT RISKS

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

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

FINANCIAL INSTRUMENTS

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

2. Summary of Significant Accounting Policies (continued)

STEP RENT RECEIVABLE

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

$392,000 and $130,000 at December 31, 2003 and 2002, respectively.

SYNDICATION FEES

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

REVENUE RECOGNITION

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

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

INTEREST INCOME

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

INCOME TAXES

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

NET INCOME PER SHARE

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

FSP Montague Business Center Corp.
Notes to Financial Statements.

3. Recent Accounting Standards

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

4. Income Taxes

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

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

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

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

(in thousands)	Year Ended December 31, 2003	Period Ended December 31, 2002
GAAP net income (loss)	$ 2,669	$ (1,249)
Add: Book depreciation and amortization	368	134
Amortization of favorable lease	1,164	581
Deferred rent	379	--
Less: Tax depreciation and amortization	(399)	(142)
Straight-line rents	(262)	(130)
Taxable income (loss)(1) subject to a dividend requirement	$ 3,919	$ (806)

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

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

(in thousands)	Year Ended December 31, 2003	Period Ended December 31, 2002
Cash dividends paid:	$ 3,714	$ 320
Less: Return of Capital	--	(320)
Dividends paid deduction	$ 3,714	$ --

FSP Montague Business Center Corp.
Notes to Financial Statements

5. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases) property and equipment ("Capital Expenditures"), and payments for deferred leasing commissions; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property (cash-funded reserves). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures, payments of deferred leasing commissions, payments for deferred lease origination costs and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

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

The calculation of Cash available for distribution is shown in the following table:

(in thousands)	Year Ended December 31, 2003	Period Ended December 31, 2002
Net income (loss)	$ 2,669	$ (1,249)
Depreciation, amortization and amortization of favorable lease	1,532	715

Straight line rent	(262)	(130)
Proceeds from offering of shares, net	--	30,652
Purchase of land and building and improvements	(355)	(20,644)
Proceeds from (establish) funded reserve	366	(2,373)
Purchase of acquired real estate lease	--	(465)
Purchase of acquired favorable real estate lease	--	(5,232)
Cash Available for Distribution	$ 3,950	$ 1,274

FSP Montague Business Center Corp.
Notes to Financial Statements

5. Cash Available for Distribution (continued)

The Company's cash distributions for the periods ended December 31, 2003 and 2002 are summarized as follows:

(in thousands)

Quarter Paid	2003	2002
First Quarter	$ 902	$ --
Second Quarter	914	--
Third Quarter	941	--
Fourth Quarter	957	320
Dividends Paid	$ 3,714	$ 320

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

6. Capital Stock

PREFERRED STOCK

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

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

COMMON STOCK

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

7. Related Party Transactions

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

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

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

7. Related Party Transactions (continued)

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

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

The Company paid a dividend of $32,000 to the common shareholder relating to earnings of the Company prior to the completion of the offering of preferred shares.

8. Commitments and Contingencies

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

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

2005	4,174
2006	4,390
	$ 12,546

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

FSP Royal Ridge Corp.
Financial Statements
June 30, 2004

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FSP Royal Ridge Corp.
Balance Sheet
(unaudited)

(in thousands,except shares and par value amounts)	J
Assets:	
Real estate investments, at cost:	
Land	
Buildings and improvements	
Less accumulated depreciation	
Real estate investments, net	
Acquired real estate leases, net of accumulated amortization of $221 and $143	
Acquired favorable real estate lease, net of accumulated net amortization of $659 and $426	
Cash and cash equivalents	

Restricted cash
Tenant rents receivable
Step rent receivable
Prepaid expenses and other assets

Total assets

Liabilities and Stockholders' Equity:

Liabilities:
Accounts payable and accrued expenses
Dividends payable

Total liabilities

Commitments and Contingencies

Stockholders' Equity:
Preferred Stock, $.01 par value, 297.5 shares authorized, issued and outstanding
Common Stock, $.01 par value, 1 share authorized, issued and outstanding
Additional paid-in capital
Retained deficit and dividends in excess of earnings

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

See accompanying notes to financial statements.

FSP Royal Ridge Corp.
Statement of Income
(unaudited)

	For the Three Months Ended June 30,		
(in thousands, except shares and per share amounts)	2004	2003	20
Revenues:			
Rental	$ 755	$ 352	$1,

Expenses:			
Rental operating expenses	210	181	
Real Estate Taxes and insurance	78	88	
Depreciation and amortization	143	129	
Interest	--	--	
Total expenses	431	398	
Income (loss) before interest income	324	(46)	
Interest income	9	6	
Net income (loss) before common dividends	333	(40)	
Dividends paid to common shareholders	--	14	
Net income (loss) attributable to preferred shareholders	$ 333	$ (54)	$
Weighted average number of preferred shares outstanding, basic and diluted	297.5	297.5	29
Net income per preferred share, basic and diluted	$1,119	$ (182)	$2,

See accompanying notes to financial statements

FSP Royal Ridge Corp.
Statements of Cash Flows
(unaudited)

(in thousands)	For the Six Months June 30, 2004	June
Cash flows from operating activities:		
Net Income (loss)	$ 679	
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	286	
Amortization of favorable lease	233	
Changes in operating assets and liabilities:		
Restricted cash	--	
Tenant rent receivables	(13)	
Step rent receivable	(51)	
Prepaid expenses and other assets	(4)	
Accounts payable and accrued expenses	(545)	

Net cash provided by (used for) operating activities	585
Cash flows from investing activities:	
Purchase of real estate assets	--
Purchase of acquired real estate leases	--
Net cash used for investing activities	--
Cash flows from financing activities:	
Proceeds from sale of company stock	--
Syndication costs	--
Dividends to stockholders	(535)
Proceeds from long-term debt	--
Principal payments on long-term debt	--
Net cash (used for) provided by financing activities	(535)
Net increase in cash and cash equivalents	50
Cash and cash equivalents, beginning of period	2,251
Cash and cash equivalents, end of period	$ 2,301
Supplemental disclosure of cash flow information:	
Cash paid for:	
Interest	$ --

See accompanying notes to financial statements.

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

1. Organization and Basis of Presentation

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

BASIS OF PRESENTATION

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included.

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

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

ESTIMATES AND ASSUMPTIONS

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

2. Net Income Per Share

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

3. Income Taxes

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

4. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases) property and equipment ("Capital Expenditures"), and payments for deferred leasing commissions; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property ("Cash-funded reserves"). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures and payments for deferred leasing commissions and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

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

The calculation of cash available for distribution is shown in the following table:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2004	2003	2004	2003
Net income	$ 333	$ (54)	$ 679	$ (1,959)
Depreciation and amortization	143	129	286	237
Amortization of favorable lease	116	--	233	--
Straight line rent	(24)	(262)	(51)	(437)
Proceeds from offering of shares, net	--		--	27,277
Proceeds from (establish) funded reserve	--	--	(56)	(1,037)
Restricted cash for tenant improvements	--	--	--	(571)
Purchase of land and building	--	--	--	(15,538)
Tenant improvements	--	(183)	--	(2,335)
Cash Available for Distribution	$ 568	$(370)	$1,091	$ 5,637

The Company's cash distributions for the period ended June 30, 2004 and December 31, 2003 are summarized as follows:

(in thousands)

Quarter Paid	2004	2003
First Quarter	$ 536	$ --
Second Quarter	535	334
Third Quarter	--	530
Fourth Quarter	--	525

Dividends Paid	$ 1,071	$ 1,389

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

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

5. Related Party Transactions

The Company executed a management agreement with FSP Property Management LLC, an affiliate of FSP, that provides for a management fee equal to 1% of collected revenues and is cancelable with 30 days notice by either party. Fees incurred under the agreement were $8,650 and $614for the three months ended June 30, 2004 and 2003, respectively and $17,006 and $614 for the six months ended June 30, 2004 and 2003, respectively.

FSP Royal Ridge Corp.
Financial Statements
December 31, 2003

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

INDEPENDENT AUDITOR'S REPORT

To the Stockholders

FSP Royal Ridge Corp.

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

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

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

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

FSP Royal Ridge Corp.
Balance Sheet

(in thousands, except shares and par value amounts)	December 31 2003
Assets:	
Real estate investments, at cost:	
Land	$ 1,649
Buildings and improvements	16,224
	17,873
Less accumulated depreciation	375
Real estate investments, net	17,498
Acquired real estate leases, net of accumulated amortization of $143	975
Acquired favorable real estate leases, net of accumulated amortization of $426	2,907
Cash and cash equivalents	1,214
Cash-funded reserves	1,037
Restricted cash	571
Step rent receivable	954

Prepaid expenses and other assets	14
Total assets	$ 25,170
Liabilities and Stockholders' Equity:	
Liabilities:	
Accounts payable and accrued expenses	$ 240
Dividends payable	536
Total liabilities	776
Commitments and Contingencies:	
Stockholders' Equity:	
Preferred Stock, $.01 par value, 297.5 shares authorized, issued and outstanding	--
Common Stock, $.01 par value, 1 share authorized, issued and outstanding	--
Additional paid-in capital	27,277
Retained deficit and dividends in excess of earnings	(2,883
Total Stockholders' Equity	24,394
Total Liabilities and Stockholders' Equity	$ 25,170

See accompanying notes to financial statements.

FSP Royal Ridge Corp.
Statement of Operations

(in thousands, except shares and per share amounts)	For the Year Ended December 31, 2003
Revenue:	
Rental	$ 2,264
Total revenue	2,264
Expenses:	
Rental operating expenses	746
Real estate taxes and insurance	255
Depreciation and amortization	518
Interest	1,731
Total expenses	3,250

Loss before interest income	(986)
Interest income	28
Net loss before common dividends	(958)
Dividends paid to common shareholder	14
Net loss attributable to preferred shareholders	$ (972)
Weighted average number of preferred shares outstanding, basic and diluted	297.5
Net loss per preferred share, basic and diluted	$(3,267)

See accompanying notes to financial statements.

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

(in thousands, except shares)	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Deficit and Dividends in Excess of Earnings	St
Private offering of 297.5 shares, net	$ --	$ --	$27,277	$ --	$
Dividends	--	--	--	(1,925)	
Net loss	--	--	--	(958)	
Balance, December 31, 2003	$ --	$ --	$27,277	$(2,883)	$

See accompanying notes to financial statements.

FSP Royal Ridge Corp.
Statement of Cash Flows

(in thousands)	For the Year Ended December 31, 2003

Cash flows from operating activities:	
Net loss	$ (958)
Adjustments to reconcile net loss to net cash used for operating activities:	
Depreciation and amortization	518
Amortization of favorable leases	426
Changes in operating assets and liabilities:	
Cash-funded reserve	(1,037)
Restricted cash	(571)
Step rent receivable	(954)
Prepaid expenses and other assets	(14)
Accounts payable and accrued expenses	240
Net cash used for operating activities	(2,350)
Cash flows from investing activities:	
Purchase of real estate assets	(17,873)
Purchase of acquired real estate leases	(1,118)
Purchase of acquired favorable real estate leases	(3,333)
Net cash used for investing activities	(22,324)
Cash flows from financing activities:	
Proceeds from sale of company stock	29,760
Syndication costs	(2,483)
Dividends to stockholders	(1,389)
Proceeds from long-term debt	24,250
Principal payments on long-term debt	(24,250)
Net cash provided by financing activities	25,888
Net increase in cash and cash equivalents	1,214
Cash and cash equivalents, beginning of period	--
Cash and cash equivalents, end of period	$ 1,214

Supplemental disclosure of cash flow information:

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

See accompanying notes to financial statements.

FSP Royal Ridge Corp.

Notes to Financial Statements

1. Organization

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

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

ESTIMATES AND ASSUMPTIONS

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

REAL ESTATE AND DEPRECIATION

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

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

REAL ESTATE AND DEPRECIATION (continued)

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

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

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

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

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

ACQUIRED REAL ESTATE LEASES

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

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

(in thousands)	
Cost	$ 1,118
Accumulated amortization	(143)
Book value	$ 975

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

(in thousands)		
2004	$	156
2005	$	156
2006	$	156
2007	$	156
2008	$	156

FSP Royal Ridge Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

ACQUIRED FAVORABLE REAL ESTATE LEASES

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

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

(in thousands)		
Cost	$	3,333
Accumulated amortization		(426)
Book value	$	2,907

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

2004	$	465
2005	$	465
2005	$	465
2007	$	465
2008	$	465

CASH AND CASH EQUIVALENTS

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

CASH-FUNDED RESERVES

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

RESTRICTED CASH

Restricted cash represents funds held in escrow for tenant improvements.

MARKETABLE SECURITIES

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

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

FSP Royal Ridge Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

CONCENTRATION OF CREDIT RISKS

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

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

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

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

FINANCIAL INSTRUMENTS

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

STEP RENT RECEIVABLE

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

SYNDICATION FEES

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

REVENUE RECOGNITION

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

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

FSP Royal Ridge Corp.
Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

INTEREST INCOME

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

INCOME TAXES

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

NET INCOME PER SHARE

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

FSP Royal Ridge Corp.
Notes to Financial Statements

3. Recent Accounting Standards

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

4. Income Taxes

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

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

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

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

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

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

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

(in thousands)	Period Ended December 31, 2003
Cash dividends paid	$ 1,389
Less: Return of Capital	(1,389)
Dividends paid deduction	$ --

FSP Royal Ridge Corp.
Notes to Financial Statements

5. Cash Available for Distribution

The Company evaluates its performance based on Cash Available for Distribution ("CAD") as management believes that CAD represents the most accurate measure of the Company's activity. CAD is the basis for distributions paid to equity holders.

The Company defines CAD as: net income as computed in accordance with accounting principles generally accepted in the United States of America ("GAAP"); plus certain non-cash items included in the computation of net income (depreciation and amortization and straight line rent adjustments); plus funds raised by the issuance of shares; plus the net proceeds from the sale of land; less purchases of real estate assets (including acquired leases) property and equipment ("Capital Expenditures"), and payments for deferred leasing commissions; plus (less) proceeds from (payments to) cash reserves established at the acquisition date of the property ("Cash-funded reserves"). Depreciation and amortization and straight-line rents are an adjustment to CAD, as these are non-cash items included in net income. Capital Expenditures, payments for deferred leasing commissions and the proceeds from (payments to) the funded reserve are an adjustment to CAD, as they represent cash items not reflected in income.

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

The calculation of cash available for distribution is shown in the following table:

(in thousands)	Year Ended December 31, 2003

Net loss	$ (958)
Depreciation and amortization	518
Amortization of favorable lease	426
Straight line rent	(954)
Proceeds from offering of shares, net	27,277
Establish funded reserve	(1,037)
Restricted Cash for Tenant Improvements	(571)
Purchase of land and building	(15,538)
Building Improvements	(2,335)
Purchase of acquired real estate leases	(1,118)
Purchase of acquired favorable real estate leases	(3,333)
Cash Available for Distribution	$ 2,377

The Company's cash distributions for the period ended December 31, 2003 are summarized as follows:

(in thousands)

Quarter Paid	Total Cash Dividends
Second Quarter of 2003	$ 334
Third Quarter of 2003	530
Fourth Quarter of 2003	525
Dividends Paid in 2003	1,389
First Quarter of 2004	536
Dividends Declared in 2003(1)	$1,925

(1) The Company declared a dividend payable to stockholders of record as of December 31, 2003.

Cash distributions are declared and paid based on the total outstanding shares as of the record date and are typically paid in the quarter following the quarter that CAD is generated.

FSP Royal Ridge Corp.
Notes to Financial Statements

6. Capital Stock

PREFERRED STOCK

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

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

COMMON STOCK

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

7. Related Party Transactions

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

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

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

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

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

The Company paid a dividend of $14,000 to the common shareholder relating to earnings of the Company prior to the completion of the offering of preferred shares.

8. Commitments and Contingencies

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

Year Ending

(in thousands) December 31,	Amount
2004	$ 2,198
2005	2,040
2006	2,071
2007	2,123
2008	2,176
Thereafter	6,750
	$ 17,358

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

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