FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-K
February 17, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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

For the transition period from to

Commission File No. 001-32470

FRANKLIN STREET PROPERTIES CORP.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**04-3578653** (I.R.S. Employer Identification No.)
401 Edgewater Place, Suite 200, Wakefield, Massachusetts (Address of principal executive offices)	**01880** (Zip Code)

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

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

Title of each class:	**Name of each exchange on which registered:**
Common Stock, $.0001 par value per share	NYSE MKT

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based on the closing sale price as reported on NYSE MKT, as of the last business day of the registrant s most recently completed second fiscal quarter, June 30, 2014, was approximately $1,133,357,746.

There were 100,187,405 shares of common stock of the registrant outstanding as of February 10, 2015.

Documents incorporated by reference: The registrant intends to file a definitive proxy statement pursuant to Regulation 14A, promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the registrant s Annual Meeting of Stockholders to be held on May 14, 2015 (the Proxy Statement). The information required in response to Items 10 14 of Part III of this Form 10-K, other than that contained in Part I under the caption, Directors and Executive Officers of FSP Corp., is hereby incorporated by reference to the Proxy Statement.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

Item 1. Business

History

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

Our Business

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

Our current strategy is to invest in select urban infill and central business district properties, with primary emphasis on our top five markets of Atlanta, Dallas, Denver, Houston and Minneapolis. We believe that our top five markets have macro-economic drivers that have the potential to increase occupancies and rents. We will also monitor San Diego, Silicon Valley, Greater Boston, Raleigh-Durham, and Greater Washington, DC, as well as other markets, for opportunistic investments. We seek value-oriented investments with an eye towards long-term growth and appreciation, as well as current income.

Previously we also operated in an investment banking segment, which was discontinued in December 2011. Our investment banking segment generated brokerage commissions, loan origination fees, development services and other fees related to the organization of single-purpose entities that own real estate and the private placement of equity in those entities. We refer to these entities, which are organized as corporations and operated in a manner intended to qualify as REITs, as Sponsored REITs. On December 15, 2011, we announced that our broker/dealer subsidiary, FSP Investments LLC, would no longer sponsor the syndication of shares of preferred stock in newly-formed Sponsored REITs. On July 15, 2014, FSP Investments LLC withdrew its registration as a broker/dealer with FINRA.

From time-to-time we may acquire real estate or invest in real estate by making secured loans on real estate. We may also pursue on a selective basis the sale of our properties to take advantage of the value creation and demand for our properties, or for geographic or property specific reasons.

Real Estate

We own and operate a portfolio of real estate consisting of 38 office properties as of December 31, 2014. We derive rental revenue from income paid to us by tenants of these properties. See Item 2 of this Annual Report on Form 10-K for more information about our properties. From time-to-time we dispose of properties generating gains or losses in an ongoing effort to improve and upgrade our portfolio. We also held preferred stock investments in two Sponsored REITs as of December 31, 2014, from which we record our share of income or loss under the equity method of accounting, and from which we receive dividends.

We provide asset management, property management, property accounting, investor and/or development services to our portfolio and certain of our Sponsored REITs through our subsidiaries FSP Investments LLC and FSP Property Management LLC. FSP Corp. recognizes revenue from its receipt of fee income from Sponsored

Table of Contents

REITs that have not been consolidated or acquired by us. Neither FSP Investments LLC nor FSP Property Management LLC receives any rental income.

From time-to-time we may make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that these loans will be repaid at their maturity or earlier from long-term financings of the underlying properties, cash flows from the underlying properties or some other capital event. We refer to these loans as Sponsored REIT Loans. We had five Sponsored REIT Loans secured by real estate outstanding as of December 31, 2014, from which we derive interest income.

Investment Objectives

Our investment objectives are to create shareholder value by increasing revenue from rental, dividend, interest and fee income and net gains from sales of properties and increase the cash available for distribution in the form of dividends to our stockholders. We expect that we will continue to derive real estate revenue from Sponsored REIT Loans and fees from asset management, property management and investor services. We may also acquire additional real properties.

From time to time, as market conditions warrant, we may sell properties owned by us. In January 2015, we reached an agreement to sell an office property located in Plano, Texas, which is expected to close in February 2015 at a gain. We sold one office property located in Colorado Springs, Colorado on December 3, 2014 at a gain, one office property located in Richardson, Texas on October 29, 2013 at a gain and one office property located in Southfield, Michigan on December 21, 2012 at a loss. When we sell a property, we either distribute some or all of the sale proceeds to our stockholders as a distribution or retain some or all of such proceeds for investment in real properties or other corporate activities.

We may acquire, and have acquired, real properties in any geographic area of the United States and of any property type. We own 38 properties that are located in 13 different states. See Item 2 of this Annual Report on Form 10-K for more information about our properties.

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

- we seek to buy or develop investment properties at a price which produces value for investors and avoid overpaying for real estate merely to outbid competitors;
- we seek to buy or develop properties in excellent locations with substantial infrastructure in place around them and avoid investing in locations where the future construction of such infrastructure is speculative;
- we seek to buy or develop properties that are well-constructed and designed to appeal to a broad base of users and avoid properties where quality has been sacrificed for cost savings in construction or which appeal only to a narrow group of users;
- we aggressively manage, maintain and upgrade our properties and refuse to neglect or undercapitalize management, maintenance and capital improvement programs; and

- we believe that we have the ability to hold properties through down cycles because we generally do not have significant leverage on the Company, which could place the properties at risk of foreclosure. As of February 10, 2015, none of our 38 properties was subject to mortgage debt.

Competition

With respect to our real estate investments, we face competition in each of the markets where our properties are located. In order to establish, maintain or increase the rental revenues for a property, it must be competitive on location, cost and amenities with other buildings of similar use. Some of our competitors may have significantly more resources than we do and may be able to offer more attractive rental rates or services. On the other hand, some of our competitors may be smaller or have less fixed overhead costs, less cash or other resources that make them willing or able to accept lower rents in order to maintain a certain occupancy level. In markets where there is not currently significant existing property competition, our competitors may decide to enter the market and build new buildings to compete with our existing projects or those in a development stage. Our

Table of Contents

competition is not only with other developers, but also with property users who choose to own their building or a portion of the building in the form of an office condominium. Competitive conditions are affected by larger market forces beyond our control, such as general economic conditions, that may increase competition among landlords for quality tenants, and individual decisions by tenants that are beyond our control.

Employees

We had 39 employees as of December 31, 2014 and 40 employees as of February 10, 2015.

Available Information

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

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

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

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

Table of Contents

Directors and Executive Officers of FSP Corp.

The following table sets forth the names, ages and positions of all our directors and executive officers as of February 10, 2015.

Name	**Age**	**Position**
George J. Carter (6)	66	President, Chief Executive Officer and Director
Barbara J. Fournier (5)	59	Executive Vice President, Chief Operating Officer, Treasurer, Secretary and Director
Janet Prier Notopoulos (4)	67	Executive Vice President and Director
John N. Burke (1) (2) (3) (5) (7)	53	Director
Brian N. Hansen (1) (2) (3) (4) (9)	43	Director
Dennis J. McGillicuddy (1) (4)	73	Director
Georgia Murray (2) (3) (6) (8) (10)	64	Director
Barry Silverstein (1) (5)	81	Director
Jeffery B. Carter	43	Executive Vice President and Chief Investment Officer
Scott H. Carter	43	Executive Vice President, General Counsel and Assistant Secretary
John G. Demeritt	54	Executive Vice President and Chief Financial Officer

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

(4) Class I Director

(5) Class II Director

(6) Class III Director

(7) Chair of the Audit Committee

(8) Chair of the Compensation Committee

(9) Chair of the Nominating and Corporate Governance Committee

(10) Lead Independent Director

George J. Carter, age 66, is President, Chief Executive Officer and has been a Director of FSP Corp. since 2002. Mr. Carter is responsible for all aspects of the business of FSP Corp. and its affiliates, with special emphasis on the evaluation, acquisition and structuring of real estate investments. Prior to the conversion, he was President of the general partner of the FSP Partnership (the General Partner) and was responsible for all aspects of the business of the FSP Partnership and its affiliates. From 1992 through 1996 he was President of Boston Financial Securities, Inc. (Boston Financial). Prior to joining Boston Financial, Mr. Carter was owner and developer of Gloucester Dry Dock, a commercial shipyard in Gloucester, Massachusetts. From 1979 to 1988, Mr. Carter served as Managing Director in charge of marketing at First

Winthrop Corporation, a national real estate and investment banking firm headquartered in Boston, Massachusetts. Prior to that, he held a number of positions in the brokerage industry including those with Merrill Lynch & Co. and Loeb Rhodes & Co. Mr. Carter is a graduate of the University of Miami (B.S.).

Barbara J. Fournier, age 59, is Executive Vice President, Chief Operating Officer, Treasurer, Secretary and has been a Director of FSP Corp. since 2002. Ms. Fournier has as her primary responsibility, together with Mr. Carter, the management of all operating business affairs of FSP Corp. and its affiliates. Ms. Fournier was the Principal Financial Officer until March 2005. Prior to the conversion, Ms. Fournier was the Vice President, Chief Operating Officer, Treasurer and Secretary of the General Partner. From 1993 through 1996, she was Director of Operations for the private placement division of Boston Financial. Prior to joining Boston Financial, Ms. Fournier served as Director of Operations for Schuparra Securities Corp. and as the Sales Administrator for Weston Financial Group. From 1979 through 1986, Ms. Fournier worked at First Winthrop Corporation in administrative and management capacities; including Office Manager, Securities Operations and Partnership Administration. Ms. Fournier attended Northeastern University and the New York Institute of Finance. Ms. Fournier is a member of the

Table of Contents

NYSE MKT Listed Company Council. Ms. Fournier participates in corporate governance-related continuing education sessions offered by the NYSE affiliate, Corporate Board Member.

Janet Prier Notopoulos, age 67, is an Executive Vice President of FSP Corp. and has been a Director of FSP Corp. and President of FSP Property Management since 2002. Ms. Notopoulos has as her primary responsibility the oversight of the management of the real estate assets of FSP Corp. and its affiliates. Prior to the conversion, Ms. Notopoulos was a Vice President of the General Partner. Prior to joining the FSP Partnership in 1997, Ms. Notopoulos was a real estate and marketing consultant for various clients. From 1975 to 1983, she was Vice President of North Coast Properties, Inc., a Boston real estate investment company. Between 1969 and 1973, she was a real estate paralegal at Goodwin, Procter & Hoar. Ms. Notopoulos is a graduate of Wellesley College (B.A.) and the Harvard School of Business Administration (M.B.A).

John N.Burke, age 53, has been a Director of FSP Corp. and Chair of the Audit Committee since June 2004. Mr. Burke is a certified public accountant with over 30 years of experience in the practice of public accounting working with both private and publicly traded companies with extensive experience serving clients in the real estate and REIT industry. His experience includes analysis and evaluation of financial reporting, accounting systems, internal controls and audit matters. Mr. Burke has been involved as an advisor on several public offerings, private equity and debt financings and merger and acquisition transactions. Mr. Burke s consulting experience includes a wide range of accounting, tax and business planning services. Prior to starting his own accounting and consulting firm in 2003, Mr. Burke was a Partner in the Boston office of BDO USA, LLP. Mr. Burke is a member of the American Institute of Certified Public Accountants and the Massachusetts Society of CPAs. Mr. Burke earned an M.S. in Taxation and studied undergraduate accounting at Bentley University.

Brian N. Hansen, age 43, has been a Director of FSP Corp. since 2012 and Chair of the Nominating and Corporate Governance Committee since 2013. Since 2007, Mr. Hansen has served as President and Chief Operating Officer of Confluence Investment Management LLC, a St. Louis based Registered Investment Advisor. Prior to founding Confluence in 2007, Mr. Hansen served as a Managing Director in A.G. Edwards Financial Institutions & Real Estate Investment Banking practice. While at A.G. Edwards, Mr. Hansen advised a wide variety of Real Estate Investment Trusts on numerous capital markets transactions, including public and private offerings of debt and equity securities as well as the analysis of various merger & acquisition opportunities. Prior to joining A.G. Edwards, Mr. Hansen served as a Manager in Arthur Andersen LLP s Audit & Business Advisory practice. Mr. Hansen serves on the board of a number of non-profit entities and the Investment Committee of the Archdiocese of St. Louis. Mr. Hansen earned his MBA from the Kellogg School of Management at Northwestern University and his Bachelor of Science in Commerce from DePaul University. Mr. Hansen is a Certified Public Accountant.

Dennis J. McGillicuddy, age 73, has been a Director of FSP Corp. since May 2002. Mr. McGillicuddy graduated from the University of Florida with a B.A. degree and from the University of Florida Law School with a J.D. degree. In 1968, Mr. McGillicuddy joined Barry Silverstein in founding Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Mr. McGillicuddy has served on the boards of various charitable organizations. He is currently president of the Board of Trustees of Florida Studio Theater, a professional non-profit theater organization, and he serves as a Co-Chair, together with his wife, of Embracing Our Differences, an annual month-long art exhibit that promotes the values of diversity and inclusion. Mr. McGillicuddy also is a member of the Advisory Board to the Center For Mindfulness In Medicine, Health Care & Society, University of Massachusetts Medical School.

Georgia Murray, age 64, has been a Director of FSP Corp. since April 2005, Chair of the Compensation Committee since October 2006 and Lead Independent Director since February 2014. Ms. Murray is retired from Lend Lease Real Estate Investments, Inc., where she served as a Principal from November 1999 until May 2000. From 1973 through October 1999, Ms. Murray worked at The Boston Financial Group, Inc., serving as Senior Vice President and a Director at times during her tenure. Boston Financial was an affiliate of the Boston Financial Group, Inc. She is a past Trustee of the Urban Land Institute and a past President of the Multifamily Housing Institute. Ms. Murray previously served on the Board of Directors of Capital Crossing Bank. She also serves on the boards of numerous non-profit entities. Ms. Murray is a graduate of Newton College.

5

Table of Contents

Barry Silverstein, age 81, has been a Director of FSP Corp. since May 2002. Mr. Silverstein received his law degree from Yale University in 1957 and subsequently held positions as attorney/officer/director of various privately-held manufacturing companies in Chicago, Illinois. In 1964, he moved to Florida to manage his own portfolio and to teach at the University of Florida Law School. In 1968, Mr. Silverstein became the principal founder and shareholder in Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Since January 2001, Mr. Silverstein has been a private investor.

Jeffrey B. Carter, age 43, is Executive Vice President and Chief Investment Officer of FSP Corp. Mr. Carter was appointed to that position in February 2012. Previously, Mr. Carter served as Senior Vice President and Director of Acquisitions of FSP Corp. from 2005 to 2012 and as Vice President - Acquisitions from 2003 to 2005. Mr. Carter is primarily responsible for developing and implementing the Company s investment strategy, including coordination of acquisitions and dispositions. Prior to joining FSP Corp., Mr. Carter worked in Trust Administration for Northern Trust Bank in Miami, Florida. Mr. Carter is a graduate of Arizona State University (B.A.), The George Washington University (M.A.) and Cornell University (M.B.A.). Mr. Carter s father, George J. Carter, serves as President, Chief Executive Officer and a Director of FSP Corp. and Mr. Carter s brother, Scott H. Carter, serves as Executive Vice President, General Counsel and Assistant Secretary of FSP Corp.

Scott H. Carter, age 43, is Executive Vice President, General Counsel and Assistant Secretary of FSP Corp. Mr. Carter has served as General Counsel since February 2008. Mr. Carter joined FSP Corp. in October 2005 as Senior Vice President, In-house Counsel and was appointed to the position of Assistant Secretary in May 2006. Mr. Carter has as his primary responsibility the management of all of the legal affairs of FSP Corp. and its affiliates. Prior to joining FSP Corp. in October 2005, Mr. Carter was associated with the law firm of Nixon Peabody LLP, which he originally joined in 1999. At Nixon Peabody LLP, Mr. Carter concentrated his practice on the areas of real estate syndication, acquisitions and finance. Mr. Carter received a Bachelor of Business Administration (B.B.A.) degree in Finance and Marketing and a Juris Doctor (J.D.) degree from the University of Miami. Mr. Carter is admitted to practice law in the Commonwealth of Massachusetts. Mr. Carter s father, George J. Carter, serves as President, Chief Executive Officer and a Director of FSP Corp. and Mr. Carter s brother, Jeffery B. Carter, serves as Executive Vice President and Chief Investment Officer of FSP Corp.

John G. Demeritt, age 54, is Executive Vice President and Chief Financial Officer of FSP Corp. and has been Chief Financial Officer since March 2005. Mr. Demeritt previously served as Senior Vice President, Finance and Principal Accounting Officer since September 2004. Prior to September 2004, Mr. Demeritt was a Manager with Caturano & Company, an independent accounting firm (which later merged with McGladrey) where he focused on Sarbanes Oxley compliance. Previously, from March 2002 to March 2004 he provided consulting services to public and private companies where he focused on SEC filings, evaluation of business processes and acquisition integration. During 2001 and 2002 he was Vice President of Financial Planning & Analysis at Cabot Industrial Trust, a publicly traded real estate investment trust, which was acquired by CalWest in December 2001. From October 1995 to December 2000 he was Controller and Officer of The Meditrust Companies, a publicly traded real estate investment trust (formerly known as the The La Quinta Companies, which was then acquired by the Blackstone Group), where he was involved with a number of merger and financing transactions. Prior to that, from 1986 to 1995 he had financial and accounting responsibilities at three other public companies, and was previously associated with Laventhol & Horwath, an independent accounting firm from 1983 to 1986. Mr. Demeritt is a Certified Public Accountant and holds a Bachelor of Science degree from Babson College.

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

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

Table of Contents

Item 1A **Risk Factors**

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

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

Because economic conditions in the United States may affect real estate values, occupancy levels and property income, current and future economic conditions in the United States could have a material adverse impact on our earnings and financial condition. The economy in the United States is continuing to experience a period of slow economic growth, with slowly declining unemployment from recent high levels and increased credit risk premiums for a number of market participants. These conditions may continue or worsen in the future. Economic conditions may be affected by numerous factors, including but not limited to, inflation and employment levels, energy prices, slow growth and/or recessionary concerns, changes in currency exchange rates, fiscal and tax policy uncertainty, geopolitical events, changes in government regulations, regulatory uncertainty, the availability of credit and interest rates. Future economic factors may negatively affect real estate values, occupancy levels and property income.

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

From time-to-time, we may draw on the BAML Credit Facility (as defined in Note 4 to the Consolidated Financial Statements) or the BMO Term Loan (as defined in Note 4 to the Consolidated Financial Statements) to make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We refer to these loans as Sponsored REIT Loans. We anticipate that each Sponsored REIT Loan will be repaid at maturity or earlier from long term financing of the property securing the loan, cash flows from that underlying property or some other capital event. If a Sponsored REIT defaults on a Sponsored REIT Loan, the Sponsored REIT could be unable to fully repay the Sponsored REIT Loan and we would have to satisfy our obligation under the BAML Credit Facility and/or the BMO Term Loan through other means. If we are required to use cash for this purpose, we would have less cash available for distribution to our stockholders or for other corporate purposes.

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

There can be no assurance that we will be able to refinance the revolving line of credit portion of the BAML Credit Facility upon its maturity on October 29, 2018 (subject to extension until October 29, 2019), the term loan portion of the BAML Credit Facility upon its maturity on September 27, 2017 or the BMO Term Loan upon its maturity on August 26, 2020, that any such refinancings would be on terms as favorable as the terms of the BAML Credit Facility or the BMO Term Loan, or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on the BAML Credit Facility or the BMO Term Loan. If we are unable to refinance the BAML Credit Facility or the BMO Term Loan at maturity or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected.

Failure to comply with covenants in the BAML Credit Facility and the BMO Term Loan credit agreements could adversely affect our financial condition.

The BAML Credit Facility and the BMO Term Loan credit agreements contain customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BAML Credit Facility and the BMO Term Loan credit agreements also contain financial covenants that require us to maintain a minimum tangible net worth, a maximum leverage ratio, a

Table of Contents

maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, minimum unsecured interest coverage and a maximum ratio of certain investments to total assets. Our continued ability to borrow under the BAML Credit Facility and the BMO Term Loan is subject to compliance with our financial and other covenants. Failure to comply with such covenants could cause a default under the BAML Credit Facility or the BMO Term Loan, and we may then be required to repay either or both of them with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms.

We may use the BAML Credit Facility or the BMO Term Loan to finance the acquisition of real properties and for other permitted investments; to finance investments associated with Sponsored REITs, to refinance or retire indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the respective credit agreements. If we breach covenants in the BAML Credit Facility or the BMO Term Loan credit agreements, the lenders can declare a default. A default under the BAML Credit Facility or the BMO Term Loan credit agreements could result in difficulty financing growth in our business and could also result in a reduction in the cash available for distribution to our stockholders or for other corporate purposes. A default under the BAML Credit Facility or the BMO Term Loan credit agreements could materially and adversely affect our financial condition and results of operations.

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

As of December 31, 2014, we had approximately $268 million of indebtedness under the revolving line of credit portion of our BAML Credit Facility that bears interest at variable rates based on our credit rating, and we may incur more of such indebtedness in the future. Borrowings under the revolving line of credit portion of our BAML Credit Facility may not exceed $500 million outstanding at any time, although such amount may be increased by up to an additional $250 million through the exercise of an accordion feature. The term loan portion of our BAML Credit Facility is for $400 million. On September 27, 2012, we fixed the base LIBOR rate on the term loan portion of our BAML Credit Facility at 0.75% for five years by entering into an interest rate swap agreement. The BMO Term Loan is for $220 million, although such amount may be increased by up to an additional $50 million through the exercise of an accordion feature. On August 26, 2013, we fixed the base LIBOR rate on the BMO Term Loan at 2.32% for seven years by entering into an interest rate swap agreement. In the future, if interest rates increase, then so will the interest costs on our unhedged variable rate debt, which could adversely affect our cash flow, our ability to pay principal and interest on our debt and our ability to make distributions to stockholders. In addition, rising interest rates could limit our ability to both incur new debt and to refinance existing debt when it matures. From time to time, we may enter into interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions

Downgrades in our credit ratings could increase our borrowing costs or reduce our access to funding sources in the credit and capital markets.

We are currently assigned a corporate credit rating from Moody s Investors Service, Inc. (Moody s) based on its evaluation of our creditworthiness. Although our corporate credit rating from Moody s is currently investment grade, there can be no assurance that we will not be downgraded or that our rating will remain investment grade. If our credit rating is downgraded or other negative action is taken, we could be required, among other things, to pay additional interest and fees on outstanding borrowings under the BAML Credit Facility and the BMO Term Loan.

Credit rating reductions by one or more rating agencies could also adversely affect our access to funding sources, the cost and other terms of obtaining funding as well as our overall financial condition, operating results and cash flow.

Table of Contents

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

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

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

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

We are dependent on key personnel.

We depend on the efforts of George J. Carter, our President and Chief Executive Officer and a Director; Barbara J. Fournier, our Chief Operating Officer, Treasurer, Secretary, an Executive Vice President and a Director; John G. Demeritt, our Chief Financial Officer and an Executive Vice President; Jeffery B. Carter, our Chief Investment Officer and an Executive Vice President; Janet Prier Notopoulos, an Executive Vice President and a Director; and Scott H. Carter, our General Counsel, Assistant Secretary and an Executive Vice President. If any of our executive officers were to resign, our operations could be adversely affected. We do not have employment agreements with any of our executive officers.

On July 25, 2014, Ms. Fournier informed us that she will retire from FSP Corp. and resign her positions as our Executive Vice President, Chief Operating Officer, Treasurer and Secretary. We believe that other executives will perform Ms. Fournier s duties and that there will be no disruptions to our operations, but there can be no assurance that this will be the case.

Our level of dividends may fluctuate.

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

We face risks from tenant defaults or bankruptcies.

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

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

As of February 10, 2015, we owned 38 properties. Some or all of these properties may decline in value. To the extent our real properties decline in value, our stockholders could lose some or all of the value of their investments. The value of our common stock may be adversely affected if the real properties held by us decline in value since these real properties represent the majority of the tangible assets held by us. Moreover, if we are forced to sell or lease the real property held by us below its initial purchase price or its carrying costs, respectively, or if we are forced to lease real property at below market rates because of the condition of the property, our results of operations would be adversely affected and such negative results of operations may result in lower dividends being paid to holders of our common stock.

Table of Contents

New acquisitions may fail to perform as expected.

We may acquire new properties by purchasing with cash, by drawing on the revolving line of credit portion of our BAML Credit Facility, by assuming existing indebtedness, by entering into new indebtedness, by issuing debt securities, by issuing shares of our stock or by other means. During the year ended December 31, 2014, we did not acquire any properties. During the year ended December 31, 2013, we acquired one property located in Georgia and two properties located in Colorado. During the year ended December 31, 2012, we acquired one property located in Georgia and one property located in Texas. Newly acquired properties may fail to perform as expected, in which case, our results of operations could be adversely affected.

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

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

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

Certain significant costs, such as real estate taxes, utilities, insurance and maintenance costs, generally are not reduced even when a property s rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

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

When leases expire, we may incur expenses and may not be able to re-lease the space on the same terms. While we cannot predict when existing vacancy will be leased or if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, we expect to renew or sign new leases at current market rates for locations in which the buildings are located, which in some cases may be below the expiring rates. Certain leases provide tenants the right to terminate early if they pay a fee. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce distributions to our stockholders. Typical lease terms range from five to ten years, so up to approximately 20% of our rental revenue from commercial properties could be expected to expire each year.

We face risks of tenant-type concentration.

As of December 31, 2014, approximately 15% and 10% of our tenants as a percentage of the total rentable square feet operated in the energy services industry and the bank and credit services industry, respectively. An economic downturn in these or any industry in which a high concentration of our tenants operate or in which a significant number of our tenants currently or may in the future operate, could negatively impact the financial condition of such tenants and cause them to fail to make timely rental payments or default on lease obligations, fail to renew their leases or renew their leases on terms less favorable to us, become bankrupt or insolvent, or otherwise become unable to satisfy their obligations to us, which could adversely affect our financial condition and results of operations.

We face risks from geographic concentration.

The properties in our portfolio as of December 31, 2014, by aggregate square footage, are distributed geographically as follows: South 43.3%, West 24.1%, Midwest 17.6% and East 15.0%. However, within certain of those regions, we hold a larger concentration of our properties in Greater Denver, Colorado 21.0%, Atlanta, Georgia 14.6%, Dallas, Texas 14.1% and Houston, Texas 12.4%. We are likely to face risks to the extent that any of these areas in which we hold a larger concentration of our properties suffer deteriorating economic conditions.

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

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

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

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

In addition, we cannot assure you that:

- future laws, ordinances or regulations will not impose any material environmental liability;

- proposed legislation to address climate change will not increase utility and other costs of operating our properties which, if not offset by rising rental income and/or paid by tenants, would materially and adversely affect our financial condition and results of operations;

- the current environmental conditions of our properties will not be affected by the condition of properties in the vicinity of such properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us;

- tenants will not violate their leases by introducing hazardous or toxic substances into our properties that could expose us to liability under federal or state environmental laws; or

- environmental conditions, such as the growth of bacteria and toxic mold in heating and ventilation systems or on walls, will not occur at our properties and pose a threat to human health.

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

Our employee retention plan may prevent changes in control.

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

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

The interests of our existing stockholders could be diluted if additional equity securities are issued to finance future acquisitions, repay indebtedness or to fund other general corporate purposes. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing.

The price of our common stock may vary.

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

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

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

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

Provisions in our organizational documents may prevent changes in control.

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

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

Table of Contents

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

Staggered Board. Our board of directors is divided into three classes. The terms of these classes will expire in 2015, 2016 and 2017, respectively. Directors of each class are elected for a three-year term upon the expiration of the initial term of each class. The staggered terms for directors may affect our stockholders ability to effect a change in control even if a change in control were in the stockholders best interests.

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

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

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

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

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

Item 1B. <u>Unresolved Staff Comments</u>.

None.

Table of Contents

Item 2. **Properties**

Set forth below is information regarding our properties as of December 31, 2014:

Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/14	Approx. Number of Tenants	Major Tenants (2)
Office					
1515 Mockingbird Lane Charlotte, NC 28209	8/1/97	109,674	92%	70	Healthgram Inc.
678-686 Hillview Drive Milpitas, CA 95035	3/9/99	36,288	100%	1	Headway Technologies, Inc.
600 Forest Point Circle Charlotte, NC 28273	7/8/99	62,212	100%	1	American National Red Cross
14151 Park Meadow Drive Chantilly, VA 20151	3/15/01	138,537	93%	5	American Systems Corporation Omniplex World Services Booz Allen Hamilton, Inc.
1370 & 1390 Timberlake Manor Parkway, Chesterfield, MO 63017	5/24/01	232,766	98%	5	RGA Reinsurance Company AMDOCS, Inc.
501 & 505 South 336th Street Federal Way, WA 98003	9/14/01	117,010	57%	13	SunGard Availability Services, LP
50 Northwest Point Rd. Elk Grove Village, IL 60005	12/5/01	176,848	100%	1	Citicorp Credit Services, Inc.
1350 Timberlake Manor Parkway Chesterfield, MO 63017	3/4/02	116,197	91%	3	RGA Reinsurance Company AB Mauri Food Inc. d/b/a Fleischmanns Yeast
16285 Park Ten Place Houston, TX 77084	6/27/02	157,460	63%	7	Bluware, Inc. Subsea Solutions LLC BAE Systems Land & Armaments, LP
2730-2760 Junction Avenue 408-410 East Plumeria San Jose, CA 95134	8/27/02	145,951	81%	2	County of Santa Clara Spidercloud Wireless, Inc.
15601 Dallas Parkway Addison, TX 75001	9/30/02	293,926	90%	8	Federal National Mortgage Association Behringer Harvard Holdings, LLC *Compass Production Partners, LP*

1500 & 1600 Greenville Ave. Richardson, TX 75080	3/3/03	300,472	100%	5	ARGO Data Resource Corp. VCE Company, LLC Id Software, LLC

Table of Contents

Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/14	Approx. Number of Tenants	Major Tenants (2)
6550 & 6560 Greenwood Plaza Englewood, CO 80111	2/24/05	196,236	100%	4	DIRECTV, Inc. Kaiser Foundation Health Plan
3815-3925 River Crossing Pkwy Indianapolis, IN 46240	7/6/05	205,059	100%	15	Somerset CPAs, P.C. Crowe Horwath, LLP The College Network, Inc.
5055 & 5057 Keller Springs Rd. Addison, TX 75001	2/24/06	218,934	91%	31	See Footnote 3
2740 North Dallas Parkway Plano, TX 75093	12/15/00	117,050	100%	6	Masergy Communications, Inc. NelsonArchitectural Engineers, Inc. Williston Financial Group Special Insurance Services WR Starky Mortgage, LLP
5505 Blue Lagoon Drive Miami, FL 33126	11/6/03	212,619	100%	1	Burger King Corporation
5600, 5620 & 5640 Cox Road Glen Allen, VA 23060	7/16/03	298,456	100%	6	SunTrust Bank General Electric Company ChemTreat, Inc.
1293 Eldridge Parkway Houston, TX 77077	1/16/04	248,399	100%	1	CITGO Petroleum Corporation
380 Interlocken Crescent Broomfield, CO 80021	8/15/03	240,185	96%	9	VMWare, Inc. MWH Americas, Inc Cooley LLP Sierra Financial Services, Inc.
3625 Cumberland Boulevard Atlanta, GA 30339	6/27/06	387,267	86%	24	Century Business Services, Inc. Bennett Thrasher PC Randstad General Partner (US) Gas South LLC
390 Interlocken Crescent	12/21/06	241,516	72%	8	Vail Holdings, Inc.
120 East Baltimore St. Baltimore, MD 21202	6/13/07	325,445	82%	17	SunTrust Bank State s Attorney for Baltimore City State Retirement and Pension Systems of Maryland
16290 Katy Freeway Houston, TX 77094	9/28/05	156,746	100%	3	Murphy Exploration and Production Company

Table of Contents

Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/14	Approx. Number of Tenants	Major Tenants (2)
2291 Ball Drive St Louis, MO 63146	12/11/08	127,778	100%	1	Monsanto Company
45925 Horseshoe Drive Sterling, VA 20166	12/26/08	136,658	92%	2	Giesecke & Devrient America, Inc.
4807 Stonecroft Blvd. Chantilly, VA 20151	6/26/09	111,469	100%	1	Northrop Grumman Systems Corp.
14800 Charlson Road Eden Praire, MN 55347	6/30/09	153,028	100%	1	C.H. Robinson Worldwide, Inc.
121 South Eighth Street and 801 Marquette Ave. S. Minneapolis, MN 55402	6/29/10	475,012	91%	42	TCF National Bank
4820 Emperor Boulevard Durham, NC 27703	3/4/11	259,531	100%	1	Quintiles Transnational Corp.
5100 & 5160 Tennyson Pkwy Plano, TX 75024	3/10/11	202,600	100%	1	Denbury Onshore LLC
7500 Dallas Parkway Plano, TX 75024	3/24/11	214,110	100%	6	ADS Alliance Data Systems, Inc. Americorp., Inc. d/b/a Altair Global
909 Davis Street Evanston, IL 60201	9/30/11	195,245	98%	6	Houghton Mifflin Harcourt Publishing Company Northshore University Healthsystem
One Ravinia Drive Atlanta, Georgia	7/31/12	386,603	95%	17	T-Mobile South LLC Internap Network Services Corporation Cedar Technologies
10370 & 10350 Richmond Ave. Houston, TX 77042	11/1/12	629,025	98%	49	Petrobras America, Inc.
1999 Broadway Denver, CO	5/22/13	676,379	89%	29	Promontory Financial Group, LLC United States Government
999 Peachtree Atlanta, GA	7/1/13	621,946	98%	40	Sutherland Asbill Brennan LLP Heery International, Inc.
1001 17th Street Denver, CO	8/28/13	655,420	85%	16	WPX Energy. Inc. Newfield Exploration
Total Office		**9,580,057**	**93%**		

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

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

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

All of the properties listed above are owned, directly or indirectly, by us. None of our properties are subject to any mortgage loans. We have no material undeveloped or unimproved properties, or proposed programs for material renovation, improvement or development of any of our properties in 2015. We believe that our properties are adequately covered by insurance as of December 31, 2014.

Table of Contents

The information presented below provides the weighted average GAAP rent per square foot for the year ending December 31, 2014 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of December 31, 2014 (a)	Weighted Average Rent per Occupied Square Feet (b)
Park Seneca	Charlotte	NC	1969	109,674	93,442	85.2%	$ 15.43
Forest Park	Charlotte	NC	1999	62,212	62,212	100.0%	14.15
Meadow Point	Chantilly	VA	1999	138,537	128,327	92.6%	27.47
Innsbrook	Glen Allen	VA	1999	298,456	298,187	99.9%	18.28
East Baltimore	Baltimore	MD	1989	325,445	256,060	78.7%	23.35
Loudoun Tech Center	Dulles	VA	1999	136,658	132,996	97.3%	16.17
Stonecroft	Chantilly	VA	2008	111,469	111,469	100.0%	38.46
Emperor Boulevard	Durham	NC	2009	259,531	259,531	100.0%	35.66
East total				1,441,982	1,342,224	93.1%	24.56
Northwest Point	Elk Grove Village	IL	1999	176,848	176,848	100.0%	19.52
909 Davis Street	Evanston	IL	2002	195,245	191,203	97.9%	35.70
River Crossing	Indianapolis	IN	1998	205,059	201,286	98.2%	23.08
Timberlake	Chesterfield	MO	1999	232,766	228,902	98.3%	21.32
Timberlake East	Chesterfield	MO	2000	116,197	105,751	91.0%	23.51
Lakeside Crossing	Maryland Heights	MO	2008	127,778	127,778	100.0%	26.10
Eden Bluff	Eden Praire	MN	2006	153,028	153,028	100.0%	27.73
121 South 8th Street	Minneapolis	MN	1974	475,012	429,031	90.3%	15.00
Midwest total				1,681,933	1,613,827	96.0%	22.50
Blue Lagoon Drive	Miami	FL	2002	212,619	212,619	100.0%	23.19
One Overton Place	Atlanta	GA	2002	387,267	375,029	96.8%	23.38
Willow Bend Office Center	Plano	TX	1999	117,050	115,552	98.7%	20.89
Park Ten	Houston	TX	1999	157,460	130,015	82.6%	29.64
Addison Circle	Addison	TX	1999	293,926	272,264	92.6%	24.47
Collins Crossing	Richardson	TX	1999	300,472	297,888	99.1%	24.59
Eldridge Green	Houston	TX	1999	248,399	248,399	100.0%	31.23

Table of Contents

The following table is continued from the previous page and provides the weighted average GAAP rent per square foot for the year ending December 31, 2014 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of December 31, 2014 (a)	Weighted Average Rent per Occupied Square Feet (b)
Park Ten Phase II	Houston	TX	2006	156,746	156,746	100.0%	31.15
Liberty Plaza	Addison	TX	1985	218,934	205,251	93.8%	20.63
Legacy Tennyson Center	Plano	TX	1999/2008	202,600	202,600	100.0%	17.59
One Legacy Circle	Plano	TX	2008	214,110	214,110	100.0%	33.10
One Ravinia Drive	Atlanta	GA	1985	386,603	355,945	92.1%	23.04
Westchase I & II	Houston	TX	1983/2008	629,025	609,274	96.9%	32.82
999 Peachtree	Atlanta	GA	1987	621,946	582,328	93.6%	29.23
South Total				**4,147,157**	**3,978,019**	**95.9%**	**26.82**
380 Interlocken	Broomfield	CO	2000	240,185	222,483	92.6%	29.56
1999 Broadway	Denver	CO	1986	676,379	614,287	90.8%	30.81
1001 17th Street	Denver	CO	1977/2006	655,420	557,369	85.0%	31.78
Greenwood Plaza	Englewood	CO	2000	196,236	196,236	100.0%	23.65
390 Interlocken	Broomfield	CO	2002	241,516	169,061	70.0%	27.50
Hillview Center	Milpitas	CA	1984	36,288	36,288	100.0%	16.10
Federal Way	Federal Way	WA	1982	117,010	63,969	54.7%	18.46
Montague Business Center	San Jose	CA	1982	145,951	129,867	89.0%	16.12
West Total				**2,308,985**	**1,989,562**	**86.2%**	**28.33**
Grand Total				**9,580,057**	**8,923,632**	**93.1%**	**26.04**

(a) Based on weighted occupied square feet for the year ended December 31, 2014, including month-to-month tenants, divided by the

Property s net rentable square footage.

(b) Represents annualized GAAP rental revenue for the year ended December, 2014 per weighted occupied square foot.

Table of Contents

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

Three Months Ended	Range High		Low	
December 31, 2014	$	12.76	$	11.19
September 30, 2014	$	12.76	$	11.14
June 30, 2014	$	12.95	$	11.04
March 31, 2014	$	13.18	$	11.69
December 31, 2013	$	13.77	$	11.70
September 30, 2013	$	14.44	$	11.55
June 30, 2013	$	15.27	$	12.34
March 31, 2013	$	14.80	$	12.55

As of February 10, 2015, there were 9,312 holders of our common stock, including both holders of record and participants in securities position listings.

On January 9, 2015, our board of directors declared a dividend of $0.19 per share of our common stock payable to stockholders of record as of January 23, 2015 that was paid on February 12, 2015. Set forth below are the distributions per share of common stock made by FSP Corp. in each quarter since 2013.

Quarter Ended	Distribution Per Share of Common Stock of FSP Corp.	
December 31, 2014	$	0.19
September 30, 2014	$	0.19
June 30, 2014	$	0.19
March 31, 2014	$	0.19
December 31, 2013	$	0.19
September 30, 2013	$	0.19
June 30, 2013	$	0.19
March 31, 2013	$	0.19

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

Table of Contents

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return on the Company s common stock between December 31, 2009 and December 31, 2014 with the cumulative total return of (1) the NAREIT Equity Index, (2) the Standard & Poor s 500 Composite Stock Price Index (S&P 500) and (3) the Russell 2000 Total Return Index over the same period. This graph assumes the investment of $100.00 on December 31, 2009 and assumes that any distributions are reinvested.

	As of December 31,					
	2009	2010	2011	2012	2013	2014
FSP	$ 100	$ 103	$ 76	$ 102	$ 104	$ 114
NAREIT Equity	100	128	139	166	171	218
S&P 500	100	115	117	136	180	205
Russell 2000	100	127	122	141	196	206

Notes to Graph:

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

Table of Contents

Item 6. Selected Financial Data

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

(In thousands, except per share amounts)	Year Ended December 31, 2014	2013	2012	2011	2010
Operating Data:					
Total revenue	$ 249,683	$ 213,636	$ 161,580	$ 138,041	$ 115,802
Income from:					
Income from continuing operations	13,148	17,294	22,950	19,357	17,729
Income from discontinued operations		2,533	(15,317)	24,167	4,364
Net income	13,148	19,827	7,633	43,524	22,093
Basic and diluted income per share:					
Continuing operations	$ 0.13	$ 0.18	$ 0.28	$ 0.24	$ 0.22
Discontinued operations		0.03	(0.19)	0.29	0.06
Total	$ 0.13	$ 0.21	$ 0.09	$ 0.53	$ 0.28
Distributions declared per share outstanding:	$ 0.76	$ 0.76	$ 0.76	$ 0.76	$ 0.76

	As of December 31, 2014	2013	2012	2011	2010
Balance Sheet Data:					
Total assets	$ 1,936,390	$ 2,044,034	$ 1,526,068	$ 1,407,348	$ 1,238,735
Total liabilities	956,743	993,868	661,319	485,981	317,177
Total shareholders equity	979,647	1,050,166	864,749	921,367	921,558

Table of Contents

Item 7. **Management s Discussion and Analysis of Financial Condition and Results of Operations**

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

Overview

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

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

Trends and Uncertainties

Economic Conditions

The economy in the United States is continuing to experience a period of slow economic growth, with slowly declining unemployment from recent high levels, which directly affects the demand for office space, our primary income producing asset. The broad economic market conditions in the United States are affected by numerous factors, including but not limited to, inflation and employment levels, energy prices, slow economic growth and/or recessionary concerns, uncertainty about government fiscal and tax policy, changes in currency exchange rates, geopolitical events, the regulatory environment, the availability of credit and interest rates. In addition, the Federal Reserve Bank s current reduction in its quantitative easing program (or QE), has been generally received as a harbinger of real improvement, which could bode well for our real estate operations. We could benefit from any further improved economic fundamentals and increasing levels of employment. We believe that the economy is in the early stages of a cyclically-slower but prolonged broad-based upswing. However, future economic factors may negatively affect real estate values, occupancy levels and property income.

Table of Contents

Real Estate Operations

Leasing

Our real estate portfolio was approximately 92.8% leased as of December 31, 2014 and approximately 94.1% leased as of December 31, 2013. The 1.3% decrease in leased space was a result of a lease expirations and terminations during 2014 that were not leased at December 31, 2014. As of December 31, 2014 we had 689,000 square feet of vacancy in our portfolio compared to 571,000 at December 31, 2013. During the year ended December 31, 2014, we leased approximately 784,000 square feet of office space, of which approximately 635,000 square feet were with existing tenants, at a weighted average term of 6.25 years. On average, tenant improvements for such leases were $16.40 per square foot, lease commissions were $7.66 per square foot and rent concessions were approximately three months of free rent. Average GAAP base rents under such leases were $26.89 per square foot, or 11.8% higher than average rents in the respective properties as applicable compared to the year ended December 31, 2013.

As of December 31, 2014, leases for approximately 7.4% and 10.0% of the square footage in our portfolio are scheduled to expire during 2015 and 2016, respectively. As the first quarter of 2015 begins, we believe that our property portfolio is well stabilized, with a balanced lease expiration schedule. We believe that most of our largest property markets are now experiencing generally steady or improving rental conditions.

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

Real Estate Acquisition and Investment Activity

During 2014:

- we funded advances on Sponsored REIT Loans for revolving lines of credit in the aggregate amount of approximately $11.2 million;
- on June 19, we received approximately $13.9 million from FSP Galleria North Corp. as repayment in full of a Sponsored REIT Loan; and
- on December 23, we received approximately $3.4 million from FSP Highland Place I Corp. as repayment in full of a Sponsored REIT Loan.

Additional potential real estate investment opportunities are actively being explored and we would anticipate further real estate investments in the future.

During 2013:

- on May 22, we acquired an office property with approximately 680,277 rentable square feet of space for $183.0 million located in the central business district of Denver, Colorado;
- on July 1, we acquired an office property with approximately 621,007 rentable square feet for $157.9 million located in the midtown submarket of Atlanta, Georgia;
- on August 28, we acquired an office property with approximately 655,565 rentable square feet of space for $217.0 million located in the central business district of Denver, Colorado;
- on December 6, we received approximately $2.35 million from FSP 505 Waterford Corp. as repayment in full of a Sponsored REIT Loan; and
- we funded advances on Sponsored REIT Loans for revolving lines of credit in the aggregate amount of approximately $8.2 million.

Table of Contents

During 2012, we:

- acquired two properties directly into our portfolio with a total of approximately 1,016,000 rentable square feet at an aggregate purchase price of approximately $207.6 million. On July 31, 2012, we acquired an office property with approximately 387,000 square feet for approximately $52.8 million in Atlanta, Georgia and on November 1, 2012 we acquired an office property with approximately 629,000 square feet for approximately $154.8 million in Houston, Texas.

- funded advances on Sponsored REIT Loans for revolving lines of credit of an aggregate of approximately $41.6 million including $30 million during March 2012 to FSP 50 South Tenth Street Corp., and $11.6 million for revolving lines of credit made during the year ended December 31, 2012;

- received repayments on Sponsored REIT Loans of $121.2 million, including $106.2 million on July 27, 2012 from a first mortgage loan on a property owned by FSP 50 South Tenth Street Corp., and $15.0 million on December 20, 2012 from a secured revolving line of credit with FSP Phoenix Tower Corp.; and

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

Dispositions and Discontinued Operations

During 2014, the Company early adopted Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU No. 2014-08 clarifies that discontinued operations presentation applies only to disposals representing a strategic shift that has (or will have) a major effect on an entity s operations and financial results (e.g., a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of an entity). This ASU standard establishes criteria to evaluate whether transactions should be classified as discontinued operations and requires additional disclosure for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This standard was applied prospectively during 2014. For periods prior to 2014, the Company reported as discontinued operations, the income and expenses associated with a disposal group (i) that qualified as a component of an entity, (ii) for which cash flows were eliminated from the ongoing operations of the entity, and (iii) in which the Company will not have significant continuing involvement. Comparability between 2014 and prior years is affected as a result of the adoption of the new standard. The rental revenues, operating and maintenance expenses and depreciation and amortization for a property sold in 2014 are included in income from continuing operations. For 2013 and 2012 properties sold were presented as discontinued operations, which required reclassifications of rental revenues, operating and maintenance expenses and depreciation and amortization to income or loss from discontinued operations.

Property Dispositions

The Company reached an agreement to sell an office property in Plano, Texas, which is expected to close in February 2015. The sales price is approximately $20.8 million and the property has a carrying value of approximately $19.2 million at December 31, 2014. The disposal of the property does not represent a strategic shift that has a major effect on the Company s operations and financial results. Accordingly, the property remains classified within continuing operations for all periods presented

The Company sold an office property containing approximately 110,000 rentable square feet located in Colorado Springs, Colorado on December 3, 2014 at a $0.9 million gain. The disposal of the property does not represent a strategic shift that has a major effect on the Company s operations and financial results. Accordingly, the property remains classified within continuing operations for all periods presented.

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

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

Table of Contents

September 30, 2012. We sold the property on December 21, 2012 for $0.3 million resulting in a total loss of $14.8 million.

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

Critical Accounting Policies

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

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

- allocation of purchase price;
- allowance for doubtful accounts;
- assessment of the carrying values and impairments of long lived assets;
- useful lives of fixed assets and intangibles;
- valuation of derivatives;
- classification of leases; and
- ownership of stock in a Sponsored REIT and related interests.

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

Allocation of Purchase Price

We allocate the value of real estate acquired among land, buildings, improvements and identified intangible assets and liabilities, which may consist of the value of above market and below market leases, the value of in-place leases, and the value of tenant relationships. Purchase price allocations and the determination of the useful lives are based on management s estimates. Under some circumstances we may rely upon studies commissioned from independent real estate appraisal firms in determining the purchase price allocations.

Purchase price allocated to land and building and improvements is based on management s determination of the relative fair values of these assets assuming the property was vacant. Management determines the fair value of a

Table of Contents

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

Allowance for Doubtful Accounts

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

Impairment

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

Depreciation and Amortization Expense

We compute depreciation expense using the straight-line method over estimated useful lives of up to 39 years for buildings and improvements, and up to 15 years for personal property. Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period. The allocated cost of land is not depreciated. The value of above or below-market leases is amortized over the remaining non-cancelable periods of the respective leases as an adjustment to rental income. The value of in-place leases, exclusive of the value of above-market and below-market in-place leases, is also amortized over the remaining non-cancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Inappropriate allocation of acquisition costs, or incorrect estimates of useful lives, could result in depreciation and amortization expenses which do not appropriately reflect the allocation of our capital expenditures over future periods, as is required by generally accepted accounting principles.

Derivative Instruments

We recognize derivatives on the balance sheet at fair value. Derivatives that do not qualify, or are not designated as hedge relationships, must be adjusted to fair value through income. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability. To the extent hedges are effective, a corresponding amount, adjusted for swap payments, is recorded in accumulated other comprehensive income within stockholders equity. Amounts are then reclassified from accumulated other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings. Ineffectiveness, if any, is recorded in the income statement. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. We currently have no fair value hedges outstanding. Fair values of derivatives are subject to significant variability based on changes in interest rates and counterparty credit risk. To the extent we enter into fair value hedges in the future, the results of such variability could be a significant increase or decrease in our derivative assets, derivative liabilities, book equity, and/or earnings.

Lease Classification

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

Ownership of Stock in a Sponsored REIT and Related Interests

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

We also previously held a preferred stock interest in a third Sponsored REIT, FSP Phoenix Tower Corp., which we refer to as Phoenix Tower. On December 20, 2012, the property owned by Phoenix Tower was sold and, thereafter, Phoenix Tower declared and issued a liquidating distribution for its preferred shareholders, from which we were entitled to $4,862,000. As a result of the sale, we recognized our share of the gain of $1,582,000. We received $4,752,000 on January 4, 2013 and $96,000 on September 30, 2013. As of December 31, 2014, we held a beneficial interest in the Phoenix Tower liquidating trust in the amount of approximately $18,000 in connection with its preferred shares ownership.

The equity investments in Sponsored REITS are reviewed for impairment each reporting period. The Company records impairment charges when events or circumstances indicate a decline in the fair value below the carrying value of the investment has occurred and such decline is other-than-temporary. The ultimate realization of the equity investments in Sponsored REITS is dependent on a number of factors, including the performance of each investment and market conditions. An impairment charge is recorded if its determined that a decline in the value below the carrying value of an equity investment in a Sponsored REIT is other than temporary.

Table of Contents

Results of Operations

Impact of Real Estate Acquisition and Investment Activity:

The results of operations for each of the acquired properties are included in our operating results as of their respective purchase dates and the funding and repayment dates for mortgage investments. Increases in rental revenues, interest income from loans and expenses for the year ended December 31, 2014 compared to the year ended December 31, 2013, or the year ended December 31, 2013 compared to the year ended December 31, 2012 are primarily a result of the timing of these acquisitions and subsequent contribution of these acquired properties as well as the affect on interest income from the dates of funding and repayment on our mortgage investments.

Sales of Real Estate:

We sold an office property located in Colorado Springs, Colorado on December 3, 2014 at a $0.9 million gain and we sold an office property located in Richardson, Texas on October 29, 2013 at a $2.2 million gain. On December 21, 2012, we sold an office property located in Southfield, Michigan at a $14.8 million loss. The operating results of properties sold before 2014 are classified as discontinued operations in our consolidated financial statements for all periods presented.

The following table shows financial results for the years ended December 31, 2014 and 2013.

(in thousands)	**2014**	**2013**	**Change**
Revenues:			
Rental	$ 243,341	$ 206,926	$ 36,415
Related party revenue:			
Management fees and interest income from loans	6,241	6,646	(405)