

# Franklin Street Properties

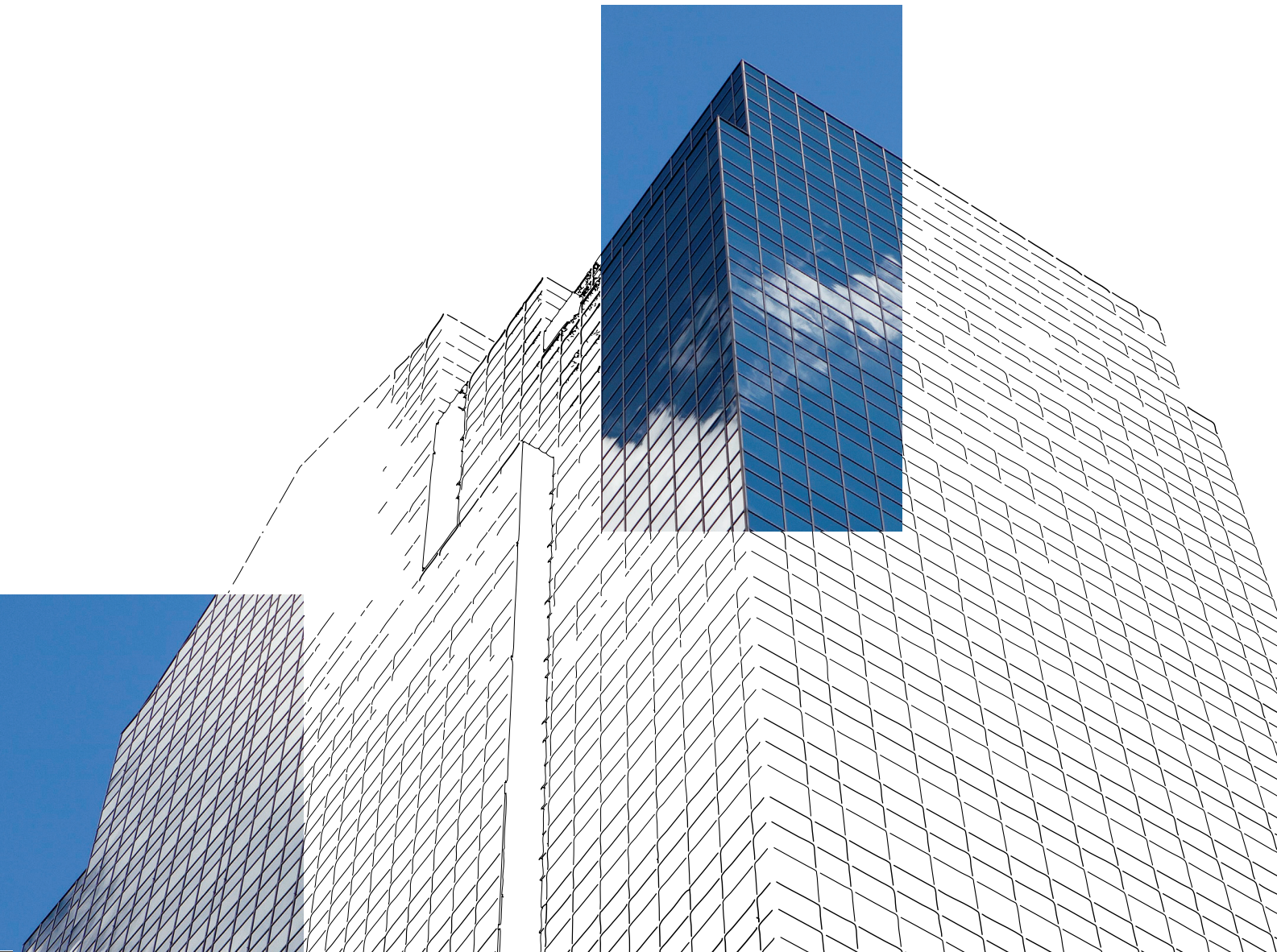
2019 Annual Report

# Franklin Street Properties Corp.

Franklin Street Properties Corp. (FSP) (NYSE American: FSP) is a real estate investment trust (REIT) focused on infill and central business district (CBD) office properties in the U.S. Sunbelt and Mountain West, as well as select opportunistic markets. FSP seeks value-oriented investments with an eye towards long-term growth and appreciation. FSP's real estate operations include property acquisitions and dispositions, leasing, development, redevelopment and asset management. As of December 31, 2019, FSP owned and operated a portfolio of real estate consisting of 32 operating and 3 redevelopment properties. FSP's operating portfolio of 32 properties was approximately 87.6% leased as of December 31, 2019.

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This Annual Report contains "forward-looking statements" within the meaning of federal securities laws. For more information, please refer to the discussion in the first paragraph of Part II, Item 7 in the attached Annual Report on Form 10-K for the year ended December 31, 2019.



# Fellow Stockholders



For the full-year 2019, our net income was approximately \$6.5 million, or \$0.06 per share, and our Company's profitability, as measured by Funds from Operations (FFO<sup>1</sup>), totaled approximately \$97.5 million, or \$0.91 per share. As of December 31, 2019, about 95% of our approximately \$970 million debt stack was at fixed rates and our nearest debt maturity was \$205 million due on November 30, 2021. As of December 31, 2019, our debt service coverage ratio was about 4.0 times and our total liquidity between our revolving line of credit and cash exceeded \$609 million.

During 2019, we leased a total of approximately 1.4 million square feet of office space in our portfolio of 32 operating and 3 redevelopment properties, of which approximately 534,000 square feet was with new tenants. Over the last three years, we averaged about 1.5 million square feet of leasing per year, or about 15% of our approximately 9.9 million square foot property portfolio. Lease expirations in 2020 are expected to be approximately 760,000 square feet, or approximately 7.7% of our total office space, and lease expirations in 2021 are expected to be approximately 799,000 square feet, or approximately 8.0% of our total office space. We believe that the expected lease expirations in 2020 and 2021 are meaningfully lower than the past few years.

Over the past two years, much of our leasing activity has been focused on renewing or backfilling existing tenant lease rollover space. In 2020, we will seek to achieve meaningful net new absorption, with the objective of increasing economic occupancy, average rental rates, and the average length of lease-term for years to come. The longer term value-add proposition that was such an integral part of the strategy of recasting our property portfolio over the last ten years is, we believe, finally at an inflection point. We look forward to the coming year with great anticipation and optimism.

Thank you for your continued support.

George J. Carter

Chairman and Chief Executive Officer

<sup>1</sup> FFO is a non-GAAP financial measure currently used in the real estate industry that we believe provides useful information to investors. Please refer to page A-1 of this Annual Report for a definition of FFO and a reconciliation of net income to FFO.

# Sustainability Efforts



Franklin Street Properties strives to maximize stockholder value through the prudent application of sound environmental, social and governance (ESG) actions. We believe that our efforts in ESG have the potential to not only improve the health of our planet, but also to save money on operating expenses, increase tenant and employee retention and reduce company risk.

We benchmark our progress relative to our peers with 3 main tools: GRESB®, ENERGY STAR®, and LEED®. Each of these rating systems capture different aspects of our sustainability journey.

GRESB is an industry-driven, global benchmark that evaluates the performance of real estate firms on key areas of participants' ESG programs. FSP was again awarded the designation of Green Star, recognizing achievement for both the Implementation & Measurement and Management & Policy dimensions of the benchmark. We received a GRESB rating of four out of five stars, which is indicative of FSP's quintile position relative to all GRESB respondents.

For asset level ratings, FSP utilizes the EPA's ENERGY STAR program and the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system. The ENERGY STAR label demonstrates energy performance in the top 25% of similar buildings. The LEED rating system we use for the majority of our portfolio is focused on building operations performance: energy, water, waste, transportation, indoor air quality, and tenant satisfaction. Two of our buildings, 999 Peachtree in Atlanta and 1001 17th Street in Denver, were awarded LEED Platinum in 2019, which is the highest level of certification.

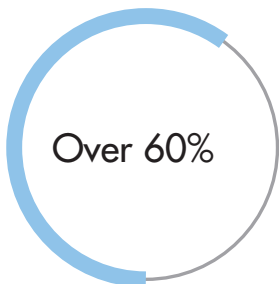
Social initiatives during the year focused on tenant and employee engagement. Tenant engagement included green fit out guides and sustainability-themed events. FSP gives back to our local community by offering all employees a paid day once per year for volunteering time at charitable activities of our employees' choice. In 2019, employees also enjoyed wellness themed workshops and a new employee wellness room.

Governance initiatives during the year included regular meetings of our Sustainability Committee, employee training on governance matters and ESG reporting to our Board of Directors.



## ENERGY STAR

Over 60% of our square footage, both directly-owned and asset-managed by FSP, has earned the ENERGY STAR label.

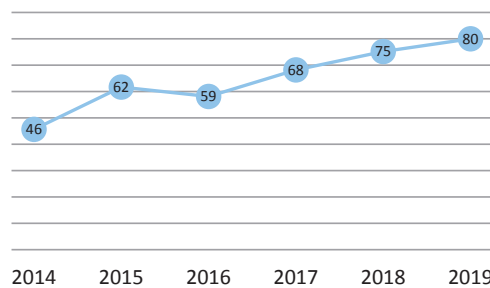


■ % of square footage earning the ENERGY STAR label

## GRESB

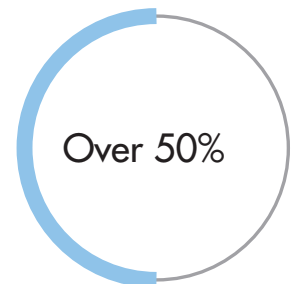
Our GRESB score has shown improvement since 2014 reflecting our efforts to maximize stockholder value through the prudent application of sound ESG actions.

GRESB Score



## LEED

Over 50% of our square footage, both directly-owned and asset-managed by FSP, has been awarded LEED certification.



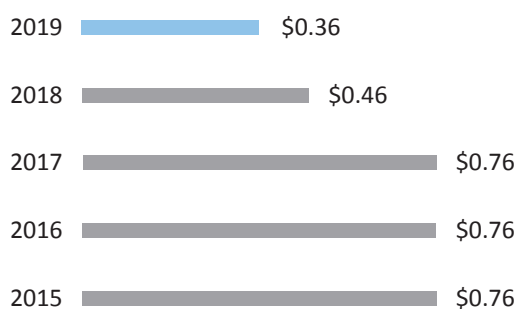
■ % of square footage awarded LEED certification

## Balance Sheet Data – Year Ended December 31

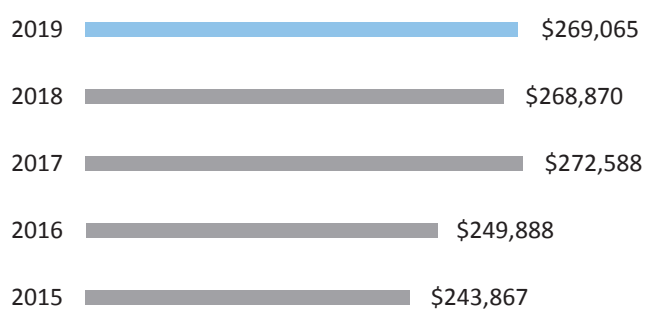
(In thousands)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total assets	\$ 1,919,015	\$ 2,088,133	\$ 1,990,512	\$ 1,898,102	\$ 1,842,654
Total liabilities	983,359	1,126,089	1,119,220	1,060,468	1,056,258
Total stockholders' equity	935,656	962,044	871,292	837,634	786,396
Shares outstanding at year-end	100,187	107,231	107,231	107,231	107,269
Dividends paid					
for the year ended December 31	\$ 76,142	\$ 77,481	\$ 81,496	\$ 49,326	\$ 38,603

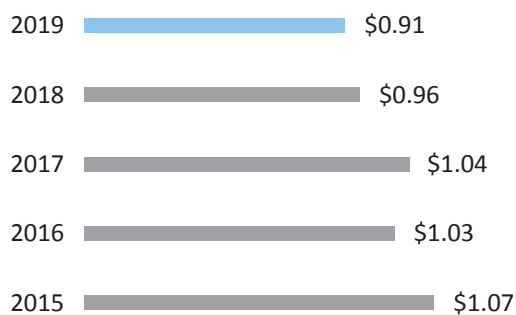
Dividends Paid (per share)  
as of December 31



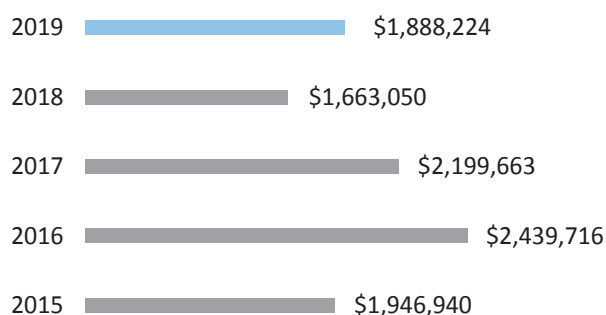
Total Revenue (in thousands)  
as of December 31



Funds from Operations (FFO)\* (per share)  
as of December 31



Total Market Capitalization (TMC, in thousands)\*\*  
as of December 31



\* FFO is a non-GAAP financial measure currently used in the real estate industry that we believe provides useful information to investors. Please refer to page A-1 of this Annual Report for a definition of FFO and a reconciliation of net income to FFO.

\*\* The Company calculates Total Market Capitalization as the sum of the closing share price for the date of the calculation multiplied by the number of shares outstanding on the date of the calculation, plus the sum of debt outstanding on the date of the calculation.



FOLLOWING IS THE ANNUAL REPORT ON FORM 10-K  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2019

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:	Trading Symbol(s)	Name of each exchange on which registered:
Common Stock, \$.0001 par value per share	FSP	NYSE American

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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

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 American, as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2019, was approximately \$759,493,045.

There were 107,269,201 shares of common stock of the registrant outstanding as of February 6, 2020.

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, 2020 (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, "Information about our Executive Officers," is hereby incorporated by reference to the Proxy Statement.



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## PART I

### Item 1. Business

#### History

Our company, Franklin Street Properties Corp., which we refer to as FSP Corp., the Company, we or our, is a Maryland corporation that operates in a manner intended to qualify as a real estate investment trust, or REIT, for federal income tax purposes. Our common stock is traded on the NYSE American 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 infill and central business district office properties in the United States sunbelt and mountain west regions as well as select opportunistic markets. We believe that the United States sunbelt and mountain west regions have macro-economic drivers that have the potential to increase occupancies and rents. 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 35 office properties as of December 31, 2019, consisting of 32 operating properties and 3 redevelopment properties. 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 provide asset management, property management, property accounting, investor and/or development services to our portfolio and certain of our Sponsored REITs through our subsidiaries FSP Investments LLC and FSP Property Management LLC. FSP Corp. recognizes revenue from its receipt of fee income from Sponsored REITs that

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

From time-to-time we may make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that these loans will be repaid at their maturity or earlier from long-term financings of the underlying properties, cash flows from the underlying properties or some other capital event. We refer to these loans as Sponsored REIT Loans. We had one Sponsored REIT Loan secured by real estate outstanding as of December 31, 2019, from which we derive interest income.

### *Sustainability*

As an owner of commercial real estate, a sector with significant environmental, social and governance “ESG” impact, we strive to maximize shareholder value through the prudent application of sound ESG strategies. Our efforts have been awarded recognition from various third party review entities, such as GRESB, ENERGY STAR and LEED. For more details on our programs, key performance indicators, and achievements, please review the ESG tab on our website, [www.fspreit.com](http://www.fspreit.com).

### 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 owned properties and Sponsored REIT Loans and fees from asset management, property management and investor services. We may also acquire additional real properties.

We may acquire, and have acquired, real properties in any geographic area of the United States and of any property type. We own 35 office properties that are located in 10 different states as of December 31, 2019, which consist of 32 operating properties and 3 redevelopment properties. See Item 2 of this Annual Report on Form 10-K for more information about our properties.

From time to time, as market conditions warrant, we may sell properties owned by us. We did not sell any properties during 2019 or 2018. We sold an office property located in Milpitas, California on January 6, 2017 at a \$2.3 million gain and an office property located in Baltimore, Maryland on October 20, 2017 at a \$20.8 million 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 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 mortgage debt on the Company, which could place the properties at risk of foreclosure. As of February 6, 2020, none of our owned properties were subject to mortgage debt.

## Competition

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

## Employees

We had 37 employees as of each of February 6, 2020 and December 31, 2019.

## Available Information

We make available, free of charge through our website <http://www.fspreit.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 Securities Exchange Act of 1934, as amended as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission, or SEC.

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.

## Directors of FSP Corp.

The following table sets forth the names, ages and positions of all our directors as of February 6, 2020.

<u>Name</u>	<u>Age</u>	<u>Position</u>
George J. Carter (6)	71	Chief Executive Officer and Chairman of the Board
John N. Burke (1) (2) (3) (5) (7)	58	Director
Brian N. Hansen (1) (2) (3) (4) (9)	48	Director
Kenneth Hoxsie (1) (3) (5)	69	Director
Dennis J. McGillicuddy (1) (4)	78	Director
Georgia Murray (1) (2) (6) (8) (10)	69	Director
Kathryn P. O'Neil (2) (3) (5)	56	Director

- 
- (1) Member of the Audit Committee
  - (2) Member of the Compensation Committee
  - (3) Member of the Nominating and Corporate Governance Committee
  - (4) Term expiring at 2022 Annual Meeting of Stockholders
  - (5) Term expiring at 2021 Annual Meeting of Stockholders
  - (6) Term expiring at 2020 Annual Meeting of Stockholders
  - (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 71, is Chief Executive Officer and has been Chairman of the Board of Directors of FSP Corp. since 2002. Mr. Carter also was the President of FSP Corp. from 2002 to May 2016. 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 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.).

John N. Burke, age 58, has been a Director of FSP Corp. since 2004 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 matters. Prior to starting his own firm in 2003, Mr. Burke was an Audit 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 48, 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 has served on the boards of a number of non-profit entities and currently serves on the Investment Committee of the Archdiocese of St. Louis and as a member of the St. Louis County Retirement Board. Mr. Hansen earned his M.B.A. 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.

Kenneth A. Hoxsie, age 69, has been a Director of FSP Corp. since January 2016. Mr. Hoxsie was a Partner at the international law firm of Wilmer Cutler Pickering Hale and Dorr LLP ("WilmerHale") until his retirement on December 31, 2015. He joined Hale and Dorr (the predecessor of WilmerHale) in 1981, subsequently worked at Copley Real Estate Advisors, an institutional real estate investment advisory firm, and rejoined Hale and Dorr in 1994. Mr. Hoxsie has over 30 years' experience in real estate capital markets transactions, fund formation, public company counseling and mergers and acquisitions and has advised the Company since its formation in 1997. Mr. Hoxsie earned his J.D. (Cum Laude) from Harvard Law School, his M.A. from Harvard University and his B.A. (Summa Cum Laude) from Amherst College, where he was elected to Phi Beta Kappa.

Dennis J. McGillicuddy, age 78, 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 two-month long art exhibit that promotes the values of diversity and inclusion. Mr. McGillicuddy also is a director of All-Star Children's Foundation, an organization engaged in creating a new paradigm for foster care.

Georgia Murray, age 69, 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.

Kathryn P. O’Neil, age 56, has been a Director of FSP Corp. since January 2016. Ms. O’Neil was a Director at Bain Capital in the Investor Relations area where she focused on Private Equity and had oversight of the Investment Advisory sector from 2011 until her retirement in 2014. From 1999 to 2007, Ms. O’Neil was a Partner at FLAG Capital Management LLC, a manager of fund-of-funds investment vehicles in private equity, venture capital, real estate and natural resources. Previously, Ms. O’Neil was an Investment Consultant at Cambridge Associates where she specialized in Alternative Assets. Ms. O’Neil currently serves on a variety of non-profit boards, including the Peabody Essex Museum where she is a Director and a member of the Finance, Audit, and Investment Committees, Horizon’s for Homeless Children where she is a Director and serves on the Executive and Finance Committees, and the Trustees of Reservations where she serves on the President’s Council and Investment Committee. Ms. O’Neil is a Trustee Emeritus of Colby College and a former member of the Board of Overseers of the Boston Museum of Science. Ms. O’Neil holds a B.A. (Summa Cum Laude) and M.A. (Honorary) from Colby College where she was elected to Phi Beta Kappa. Ms. O’Neil received her M.B.A. from The Harvard Graduate School of Business Administration.

**Information about our Executive Officers**

The following table sets forth the names, ages and positions of all our executive officers as of February 6, 2020.

<b>Name</b>	<b>Age</b>	<b>Position</b>
George J. Carter (1)	71	Chief Executive Officer and Chairman of the Board
Jeffrey B. Carter	48	President and Chief Investment Officer
Scott H. Carter	48	Executive Vice President, General Counsel and Secretary
John G. Demeritt	59	Executive Vice President, Chief Financial Officer and Treasurer
John F. Donahue	53	Executive Vice President
Eriel Anchondo	42	Executive Vice President and Chief Operating Officer

(1) Information about George J. Carter is set forth above. See “Directors of FSP Corp.”

Jeffrey B. Carter, age 48, is President and Chief Investment Officer of FSP Corp. Mr. Carter served as Executive Vice President and Chief Investment Officer from February 2012 until May 2016, when he was appointed as President in addition to his position as Chief Investment Officer. 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 oversees the day-to-day execution of the Company’s strategic objectives and business plan. In addition, 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 Chief Executive Officer and Chairman of the Board of Directors of FSP Corp. and Mr. Carter’s brother, Scott H. Carter, serves as Executive Vice President, General Counsel and Secretary of FSP Corp.

Scott H. Carter, age 48, is Executive Vice President, General Counsel and 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 and In-house Counsel. Mr. Carter is primarily responsible for 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 Chief Executive Officer and Chairman of the Board of Directors of FSP Corp. and Mr. Carter's brother, Jeffrey B. Carter, serves as President and Chief Investment Officer of FSP Corp.

John G. Demeritt, age 59, is Executive Vice President, Chief Financial Officer and Treasurer 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 from September 2004 to March 2005. 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 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.

John F. Donahue, age 53, is Executive Vice President of FSP Corp. and President of FSP Property Management LLC and has held those positions since May 2016. Mr. Donahue is primarily responsible for the oversight of the management of all of the real estate assets of FSP Corp. and its affiliates. Mr. Donahue joined FSP Corp. in August 2001 as Vice President of FSP Property Management LLC. From 2001 to May 2016, Mr. Donahue was responsible for the management of real estate assets of FSP Corp. and its affiliates. From 1992 to 2001, Mr. Donahue worked in the pension fund advisory business for GE Capital and AEW Capital Management with oversight of office, research and development, industrial and land investments. From 1989 to 1992, Mr. Donahue worked for Krupp Realty in various accounting and finance roles. Mr. Donahue holds a Bachelor of Science in Business Administration degree from Bryant College.

Eriel Anchondo, age 42, is Executive Vice President and Chief Operating Officer of FSP Corp. and has held those positions since May 2016. Mr. Anchondo joined FSP Corp. in 2015 as Senior Vice President of Operations. Mr. Anchondo is responsible for ensuring that the Company has the proper operational controls, administrative and reporting procedures, and people systems and infrastructure in place to effectively grow the organization and maintain financial strength and operating efficiency. Prior to joining FSP Corp., from July 2014 to December 2014, Mr. Anchondo provided consulting services to the retail banking division of ISBAN, which is part of the Technology and Operations division of the Santander Group of financial institutions. From May 2007 to July 2013, Mr. Anchondo was employed by Mercer, a global consulting leader in talent, health, retirement, and investments, as an Employee Education Manager across all lines of Mercer's business. From May 2005 to May 2007, Mr. Anchondo was a Communications Consultant at New York Life Investment Management. From December 2002 to May 2005, Mr. Anchondo worked in the Preferred Client Services Group at Putnam Investments. Mr. Anchondo is a graduate of Boston University (B.A.) and Cornell University (M.B.A.).

Except for Eriel Anchondo, who joined FSP Corp. in 2015, each of the above executive officers has been a full-time employee of FSP Corp. for the past five fiscal years.

#### **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. Economic conditions may be affected by numerous factors, including but not limited to, the pace of economic growth and/or recessionary concerns, inflation, increases in the levels of unemployment, energy prices, changes in currency exchange rates, uncertainty about government fiscal and tax policy, geopolitical events, the regulatory environment, 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 request additional draws, keep balances outstanding on our existing debt, exercise any maturity date extension rights, seek new debt or use our cash balance to repay our existing debt, which may reduce cash available for distribution to our stockholders or for other corporate purposes.**

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 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 may have to satisfy our obligations under our existing debt through other means, including without limitation, requesting additional draws, keeping balances outstanding, exercising any maturity date extension rights, seeking new debt, and/or using our cash balance. If that happens, we may 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, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes.**

There can be no assurance that we will be able to refinance the revolving line of credit portion of the BAML Credit Facility (as defined in Note 4 to the Consolidated Financial Statements) upon its maturity on January 12, 2022 (subject to two six month extensions until January 12, 2023), the term loan portion of the BAML Credit Facility upon its maturity on January 12, 2023, the BMO Term Loan (as defined in Note 4 to the Consolidated Financial Statements) upon its maturities on November 30, 2021 and January 31, 2024, the JPM Term Loan (as defined in Note 4 to the Consolidated Financial Statements) upon its maturity on November 30, 2021, the Series A Notes (as defined in Note 4 to the Consolidated Financial Statements) upon their maturity on December 20, 2024 or the Series B Notes (as defined in Note 4 to the Consolidated Financial Statements) upon their maturity on December 20, 2027, that any such refinancings would be on terms as favorable as the terms of the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes, or the Series B Notes, 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, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes. If we are unable to refinance the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes 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 documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes could adversely affect our financial condition.**

The documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes and the Series B Notes contain customary affirmative and negative covenants, 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 documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes and the Series B Notes contain some or all of the following financial covenants: minimum tangible net worth; maximum leverage ratio; maximum secured leverage ratio; minimum fixed charge coverage ratio;



maximum unencumbered leverage ratio; and minimum unsecured interest coverage. Our continued ability to borrow under the BAML Credit Facility, the BMO Term Loan, and the JPM 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, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes, and we may then be required to repay 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, the BMO Term Loan, and the JPM 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 documents. If we breach covenants in the documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes, the lenders can declare a default. A default under documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes, or the Series B Notes 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 documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes 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, 2019, we had no borrowings under the revolving line of credit portion of our BAML Credit Facility that bears interest at variable rates based on our credit rating, from which we may incur indebtedness in the future. Borrowings under the revolving line of credit portion of our BAML Credit Facility may not exceed \$600 million outstanding at any time. As of December 31, 2019, \$400 million was drawn and outstanding under the term loan portion of our BAML Credit Facility. The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity. On July 22, 2016, we fixed the base LIBOR rate on the term loan portion of the BAML Credit Facility at 1.12% until September 27, 2021 by entering into an interest rate swap agreement.

As of December 31, 2019, \$220 million was drawn and outstanding under the BMO Term Loan, although such amount may be increased by up to an additional \$100 million through the exercise of an accordion feature. The BMO Term Loan consists of a \$55 million tranche A term loan and a \$165 million tranche B term loan. On August 26, 2013, we fixed the base LIBOR rate on the BMO Term Loan at 2.32% per annum until August 26, 2020 by entering into an interest rate swap agreement. On February 20, 2019, we fixed the base LIBOR rate on the BMO Term Loan at 2.39% per annum for the period beginning August 26, 2020 and ending on January 31, 2024, by entering into interest rate swap agreements.

As of December 31, 2019, \$150 million was drawn and outstanding under the JPM Term Loan. The JPM Term Loan bears interest at variable rates based on our credit rating. Effective March 29, 2019, we fixed the LIBOR-based rate at 2.44% per annum on a \$100 million portion of the JPM Term Loan until November 30, 2021, by entering into interest rate swap agreements.

In the future, if interest rates increase, then the interest costs on our unhedged variable rate debt will also increase, 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 incur new debt or to refinance existing debt when it matures. From time to time, we may enter into additional 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.

**Changes to and replacement of the LIBOR benchmark interest rate could adversely affect our business, financial results and operation.**

We may be adversely affected by the expected discontinuance of LIBOR. In July 2017, the United Kingdom Financial Conduct Authority (the regulatory authority over LIBOR) announced that it will plan for a phase out of regulatory oversight of LIBOR interest rate indices after 2021 to allow for an orderly transition to an alternate reference rate. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. The Alternative Reference Rates Committee (ARRC), a group of private-market participants assembled by the Federal Reserve Board and the Federal Reserve Bank of New York, has proposed that the Secured Overnight Financing Rate (SOFR) is the rate that represents best practice as the alternative to LIBOR for derivatives and other financial contracts that are currently indexed to LIBOR. The ARRC has proposed a market transition plan to SOFR from LIBOR and organizations are currently working on transition plans as it relates to derivatives and cash markets exposed to LIBOR. We are evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of SOFR as the dominant replacement in the United States. In addition, other benchmarks may emerge or other rates may be adopted outside of the United States. Although the full impact of the transition away from LIBOR, including the discontinuance of LIBOR publication and the adoption of a replacement rate for LIBOR, remains unclear, these changes may have an adverse impact on our financing costs with respect to any floating rate indebtedness.

**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 under the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes and the Series B Notes.

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.

**If we are not able to collect sufficient rents from each of our owned real properties, or investments in Sponsored REITs, or collect 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 identify properties that meet our criteria for purchase.**

Growth in our portfolio of real estate is dependent on the ability of our acquisition executives to identify properties for sale and/or development which meet the applicable investment criteria. To the extent they fail to identify 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 Chief Executive Officer and Chairman of the Board of Directors; Jeffrey B. Carter, our President and Chief Investment Officer; Scott H. Carter, our General Counsel, Secretary

and an Executive Vice President; John G. Demeritt, our Chief Financial Officer, Treasurer and an Executive Vice President; John F. Donahue, our President of FSP Property Management LLC and an Executive Vice President; and Eriel Anchondo, our Chief Operating Officer and an Executive Vice President. If any of our executive officers were to resign, our operations could be adversely affected. We do not have employment agreements with any of our executive officers.

#### **Our level of dividends may fluctuate.**

Because our real estate occupancy levels and rental rates can fluctuate, there is no predictable recurring level of revenue from such activities and changes in interest rates or in the mix of our fixed and variable rate debt can cause our interest costs to fluctuate. As a result of these fluctuations, the amount of cash available for distribution to our stockholders 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 December 31, 2019, we owned 35 properties, consisting of 32 operating properties and 3 redevelopment properties. Some or all of these properties may decline in value. To the extent our real properties decline in value, our stockholders could lose some or all of the value of their investments. The value of our common stock may be adversely affected if the real properties held by us decline in value since these real properties represent the majority of the tangible assets held by us. Moreover, if we are forced to sell or lease the real property held by us below its initial purchase price or its carrying costs, respectively, or if we are forced to lease real property at below market rates because of the condition of the property, our results of operations would be adversely affected and such negative results of operations may result in lower dividends being paid to holders of our common stock.

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

We may fund the acquisition of new properties 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. Our acquisition activities are subject to the following risks:

- acquired properties may fail to perform as expected;
- the actual costs of repositioning, redeveloping or maintaining acquired properties may be greater than our estimates; and
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations, and this could have an adverse effect on our results of operations and financial condition.

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

An investment in us is subject to the risks incident to the ownership, development, redevelopment 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 vacant space in properties will be leased, 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, 2019, approximately 15%, 13%, 11% and 11% of our tenants as a percentage of the total rentable square feet operated in the information technology and computer services industry, the energy services industry, the non-legal professional services industry and the legal 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, 2019, by aggregate square footage, are distributed geographically as follows: South — 46.4%, West — 26.4%, Midwest — 17.0% and East — 10.2%. However, within certain of those regions, we hold a larger concentration of our properties in Greater Denver, Colorado — 26.4%, Atlanta, Georgia — 19.8%, Houston, Texas — 12.0% and Dallas, 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. Given the fact that the Dallas, Denver and Houston metropolitan areas have a significant presence in the energy sector, a prolonged period of low oil or natural gas prices, or other factors negatively impacting the energy industry, could have an adverse impact on our ability to maintain the occupancy of our properties in those areas or could cause us to lease space at rates below current in-place rents, or at rates below the rates we have leased space in those areas in the prior year. In addition, factors negatively impacting the energy industry could reduce the market values of our properties in those areas, which could reduce our net asset value and adversely affect our financial condition and results of operations, or cause a decline in the value of our common stock.

**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;
- 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 face possible risks associated with the physical effects of climate change.**

The physical effects of climate change could have a material adverse effect on our properties, operations and business. For example, climate change could increase utility and other costs of operating our properties, including increased costs for energy, water, insurance, regulatory compliance and other supply chain materials, which if not offset by rising rental income and/or paid by tenants, could have a material adverse effect on our properties, operations and business. We are also subject to climate change induced severe storm hazards, which to the extent not covered by insurance, could result in significant capital expenditures. Over time, the physical effects of climate change could result in declining demand for office space in our buildings or our inability to operate the buildings at all.

**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. Noncompliance with such requirements 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. Although we have taken steps to protect the security of our information technology systems and the data maintained in those systems, such systems and infrastructure may be vulnerable to attacks by hackers, computer viruses or ransomware, or breaches due to employee error, malfeasance, impersonation of authorized users or other disruptions. Any such breach or attack could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and continuously become more sophisticated, often are not recognized until launched against a target and may be difficult to detect for a long time, we may be unable to anticipate these techniques or to implement adequate preventive or detective measures. Any unauthorized access, disclosure or other loss of information could result in significant financial exposure, including significant costs to remediate possible injury to the affected parties. We may also be subject to sanctions and civil or criminal penalties if we are found to be in violation of the privacy or security rules under laws protecting confidential information. Any failure to maintain proper functionality and security of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition, cash flows and results of operations.

**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.

**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 we issue additional equity securities 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 real estate investment trusts (REITs) in general, and changes in our financial condition and results of operations. 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 REITs 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 REIT. 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 REIT. Moreover, 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 REIT, 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 REIT, we could be disqualified from treatment as a REIT 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 REIT, 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 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.

*Board Terms.* Prior to our 2019 annual meeting of stockholders, our board of directors was divided into three classes, with directors of each class elected to serve a three year term. Following the 2019 annual meeting of stockholders, we amended our articles of incorporation to provide that each of the successors to the directors whose terms expired in 2020 would be elected to serve until the next annual meeting of stockholders, each of the successors to the directors whose terms expired in 2021, along with the successors to the directors elected at the 2020 annual meeting, would be elected to serve until the following annual meeting of stockholders and beginning with the annual meeting of stockholders in 2022 all directors would be elected to serve until the next annual meeting of stockholders. As a result, during the transition period prior to the 2022 annual meeting of stockholders, the staggered terms for directors may affect our stockholders' ability to effect a change in control even if a change in control may be in the stockholders best interest.

*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 may be 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 may be in our stockholders' best interest.

*Amendment of Bylaws.* Our board of directors has the 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 may be in our stockholders' best interests.

*Stockholder Meetings.* Our Bylaws require advance notice for stockholder proposals to be considered at annual and special meetings of stockholders and for stockholder nominations for election of directors at annual and 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 may be 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 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 may be in our stockholders' best interest.

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

None.



**Item 2. Properties**

Set forth below is information regarding our properties as of December 31, 2019:

<u>Property Location</u>	<u>Date of Purchase (1)</u>	<u>Approx. Square Feet</u>	<u>Percent Leased as of 12/31/19</u>	<u>Approx. Number of Tenants</u>	<u>Major Tenants (2)</u>
<b><u>Office</u></b>					
14151 Park Meadow Drive Chantilly, VA 20151	3/15/01	138,537	100.0 %	5	American Systems Corporation Omniplex World Services Booz Allen Hamilton, Inc.
1370 & 1390 Timberlake Manor Parkway, Chesterfield, MO 63017	5/24/01	234,496	95.7 %	3	Centene Management Company, LLC Amdocs, Inc.
50 Northwest Point Rd. Elk Grove Village, IL 60005	12/5/01	177,095	100.0 %	2	Citicorp Credit Services, Inc. NCS Pearson, Inc.
1350 Timberlake Manor Parkway Chesterfield, MO 63017	3/4/02	117,036	100.0 %	3	Centene Management Company, LLC Edgewell Personal Care Company
16285 Park Ten Place Houston, TX 77084	6/27/02	157,460	79.0 %	7	Penn Virginia Corporation Blade Energy Partners, Ltd. Subsea Solutions LLC
15601 Dallas Parkway Addison, TX 75001	9/30/02	289,302	80.5 %	11	Cyxtera Management Inc. Compass Production Partners, LP WDT Acquisition Corporation Aerotek, Inc.
1500 & 1600 N. Greenville Ave. Richardson, TX 75081	3/3/03	300,887	88.4 %	6	ARGO Data Resource Corp. EMC Corporation Id Software, LLC
6550 & 6560 Greenwood Plaza Englewood, CO 80111	2/24/05	196,236	100.0 %	4	Kaiser Foundation Health Plan DirecTV, Inc.
3815-3925 River Crossing Pkwy Indianapolis, IN 46240	7/6/05	205,729	98.5 %	12	Somerset CPAs, P.C. Crowe, LLP Blackboard, Inc.
5055 & 5057 Keller Springs Rd. Addison, TX 75001	2/24/06	216,834	72.4 %	22	See Footnote 3
5600, 5620 & 5640 Cox Road Glen Allen, VA 23060	7/16/03	298,183	57.2 %	5	ChemTreat, Inc. General Electric Company

<b>Property Location</b>	<b>Date of Purchase (1)</b>	<b>Approx. Square Feet</b>	<b>Percent Leased as of 12/31/19</b>	<b>Approx. Number of Tenants</b>	<b>Major Tenants (2)</b>
1293 Eldridge Parkway Houston, TX 77077	1/16/04	248,399	100.0 %	1	CITGO Petroleum Corporation
380 Interlocken Crescent Broomfield, CO 80021	8/15/03	240,359	87.2 %	7	VMWare, Inc. Cooley LLP Sierra Financial Services, Inc.
3625 Cumberland Boulevard Atlanta, GA 30339	6/27/06	387,267	85.3 %	21	Randstad General Partner (US) Gas South LLC Carestream Dental, LLC
390 Interlocken Crescent Broomfield, CO 80021	12/21/06	241,512	98.2 %	7	The Vail Corporation AppExtremes, LLC
16290 Katy Freeway Houston, TX 77094	9/28/05	156,746	84.4 %	7	Olin Corporation Hargrove and Associates, Inc. Bluware, Inc.
45925 Horseshoe Drive Dulles, VA 20166	12/23/08	136,658	98.9 %	4	Giesecke & Devrient America, Inc.
4807 Stonecroft Blvd. Chantilly, VA 20151	6/26/09	111,469	100.0 %	1	Northrop Grumman Systems Corp.
121 South Eighth Street Minneapolis, MN 55402	6/29/10	297,209	90.1 %	43	Schwegman, Lundberg & Woessner
4820 Emperor Boulevard Durham, NC 27703	3/4/11	259,531	100.0 %	1	IQVIA Holdings, Inc.
5100 & 5160 Tennyson Pkwy Plano, TX 75024	3/10/11	207,049	100.0 %	5	Worldventures Holdings, LLC ARK-LA-TEX Financial Services, LLC
7500 Dallas Parkway Plano, TX 75024	3/24/11	214,110	69.4 %	6	ADS Alliance Data Systems, Inc.
909 Davis Street Evanston, IL 60201	9/30/11	195,098	93.3 %	9	Houghton Mifflin Co. Aptinyx, Inc. Northshore University Healthsystem Industrious Evn 909 Davis Street
One Ravinia Drive Atlanta, GA 30346	7/31/12	386,602	86.8 %	11	T-Mobile South LLC Cedar Document Technologies, Inc.
Two Ravinia Drive Atlanta, GA 30346	4/8/15	411,047	71.0 %	40	See Footnote 3
10370 & 10350 Richmond Ave. Houston, TX 77042	11/1/12	629,025	62.3 %	38	See Footnote 3

<u>Property Location</u>	<u>Date of Purchase (1)</u>	<u>Approx. Square Feet</u>	<u>Percent Leased as of 12/31/19</u>	<u>Approx. Number of Tenants</u>	<u>Major Tenants (2)</u>
1999 Broadway Denver, CO 80202	5/22/13	677,378	90.0 %	42	United States Government
999 Peachtree Street Atlanta, GA 30309	7/1/13	621,946	94.2 %	37	Eversheds Sutherland (US) LLP
1001 17th Street Denver, CO 80202	8/28/13	655,420	98.5 %	21	Newfield Exploration WPX Energy, Inc. Hall and Evans, LLC Ping Identity Corp.
45 South Seventh Street Minneapolis, MN 55402	6/6/16	326,757	88.6 %	29	PricewaterhouseCoopers LLP Haworth Marketing & Media Company
1420 Peachtree Street, NE Atlanta, GA 30309	8/10/16	160,145	98.9 %	4	Jones Day
600 17th Street Denver, CO 80202	12/1/16	609,112	89.5 %	41	EOG Resources, Inc.
<b>Operating portfolio</b>		<b><u>9,504,634</u></b>	<b><u>87.6 %</u></b>		
<b>Redevelopment Properties (4)</b>					
600 Forest Point Circle Charlotte, NC 28273	7/8/99	62,212	— %	—	
5505 Blue Lagoon Drive Miami, FL 33126	11/6/03	213,182	73.1 %	1	Lennar Homes, LLC
801 Marquette Ave. South Minneapolis, MN 55402	6/29/10	129,821	37.0 %	2	Common Grounds Minneapolis I, LLC Greater Minneapolis Convention & Visitor Association
		<b><u>405,215</u></b>	<b><u>50.3 %</u></b>		
<b>Total Office</b>		<b><u>9,909,849</u></b>	<b><u>86.1 %</u></b>		

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

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

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

(4) Redevelopment Properties include properties in the process of being redeveloped, or are completed but not yet stabilized.

As of December 31, 2019, we had approximately 0.4 million rentable square feet in our Redevelopment Properties. The following table summarizes these properties:

(in 000's except square feet) Property Name	City	State	Square Feet	Anticipated Investment (1)	Incurred Through 31-Dec-19	Percent Leased 31-Dec-19	Estimated Completion Date	Estimated Leased Stabilization Date	Estimated Occupied Stabilization Date
<b>Redevelopment Activity</b>									
<b>Redevelopment in Process</b>									
Forest Park	Charlotte	NC	62,212	\$ 4,418	\$ 754	0.0%	30-Jun-20	30-Sep-20	31-Dec-20
Blue Lagoon Drive (2)	Miami	FL	213,182	38,896	8,748	73.1%	31-Dec-20	30-Sep-20	31-Mar-21
Total Office in Process			275,394	43,314	9,502				
<b>Redevelopment Complete But Not Stabilized</b>									
801 Marquette Ave (3)	Minneapolis	MN	129,821	\$ 28,810	\$ 22,956	37.0%	30-Jun-17	30-Sep-20	31-Dec-20
Total			405,215	\$ 72,124	\$ 32,458				

(1) Anticipated investment includes capitalized redevelopment costs, capitalized interest and lease-up costs.

(2) Leased square feet was 155,808 as of December 31, 2019.

(3) Leased square feet was 48,019 as of December 31, 2019.

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 other material undeveloped or unimproved properties, or proposed programs for material renovation or development of any of our properties in 2020. We believe that our properties are adequately covered by insurance as of December 31, 2019.

The information presented below provides the weighted average GAAP rent per square foot for the year ended December 31, 2019 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.

<u>Property Name</u>	<u>City</u>	<u>State</u>	<u>Year Built or Renovated</u>	<u>Net Rentable Square Feet</u>	<u>Weighted Occupied Sq. Ft.</u>	<u>Weighted Occupied Percentage as of December 31, 2019 (a)</u>	<u>Weighted Average Rent per Occupied Square Feet (b)</u>
Meadow Point	Chantilly	VA	1999	138,537	138,537	100.0 %	\$ 25.87
Innsbrook	Glen Allen	VA	1999	298,183	170,769	57.3 %	19.20
Loudoun Tech Center	Dulles	VA	1999	136,658	133,761	97.9 %	18.77
Stonecroft	Chantilly	VA	2008	111,469	111,469	100.0 %	28.22
Emperor Boulevard	Durham	NC	2009	259,531	259,531	100.0 %	33.81
<b>East total</b>				<b>944,378</b>	<b>814,067</b>	<b>86.2 %</b>	<b>26.16</b>
Northwest Point	Elk Grove Village	IL	1999	177,095	177,095	100.0 %	32.89
909 Davis Street	Evanston	IL	2002	195,098	177,129	90.8 %	36.77
River Crossing	Indianapolis	IN	1998	205,729	195,833	95.2 %	23.92
Timberlake	Chesterfield	MO	1999	234,496	227,719	97.1 %	28.13
Timberlake East	Chesterfield	MO	2000	117,036	117,036	100.0 %	27.18
121 South 8th Street	Minneapolis	MN	1974	297,209	246,981	83.1 %	23.52
Plaza Seven	Minneapolis	MN	1987	326,757	286,272	87.6 %	33.72
<b>Midwest total</b>				<b>1,553,420</b>	<b>1,428,065</b>	<b>91.9 %</b>	<b>29.46</b>
One Overton Park	Atlanta	GA	2002	387,267	307,877	79.5 %	22.80
Park Ten	Houston	TX	1999	157,460	142,738	90.7 %	28.52
Addison Circle	Addison	TX	1999	289,302	216,629	74.9 %	31.13
Collins Crossing	Richardson	TX	1999	300,887	290,416	96.5 %	26.14
Eldridge Green	Houston	TX	1999	248,399	248,399	100.0 %	30.56
Park Ten Phase II	Houston	TX	2006	156,746	93,201	59.5 %	27.05
Liberty Plaza	Addison	TX	1985	216,834	155,145	71.6 %	23.03
Legacy Tennyson Center	Plano	TX	1999/2008	207,049	187,234	90.4 %	27.88
One Legacy Circle	Plano	TX	2008	214,110	196,682	91.9 %	34.79

The following table is continued from the previous page and provides the weighted average GAAP rent per square foot for the year ended December 31, 2019 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.

<u>Property Name</u>	<u>City</u>	<u>State</u>	<u>Year Built or Renovated</u>	<u>Net Rentable Square Feet</u>	<u>Weighted Occupied Sq. Ft.</u>	<u>Weighted Occupied Percentage as of December 31, 2019 (a)</u>	<u>Weighted Average Rent per Occupied Square Feet (b)</u>
One Ravinia Drive	Atlanta	GA	1985	386,602	336,421	87.0 %	\$ 24.96
Two Ravinia Drive	Atlanta	GA	1987	411,047	288,555	70.2 %	27.05
Westchase I & II	Houston	TX	1983/2008	629,025	478,499	76.1 %	31.30
Pershing Park Plaza	Atlanta	GA	1989	160,145	156,013	97.4 %	36.61
999 Peachtree	Atlanta	GA	1987	621,946	514,412	82.7 %	31.89
<b>South Total</b>				<b>4,386,819</b>	<b>3,612,221</b>	<b>82.3 %</b>	<b>28.92</b>
380 Interlocken	Broomfield	CO	2000	240,359	214,160	89.1 %	32.56
1999 Broadway	Denver	CO	1986	677,378	512,436	75.7 %	32.86
1001 17th Street	Denver	CO	1977/2006	655,420	634,774	96.9 %	36.17
600 17th Street	Denver	CO	1982	609,112	522,070	85.7 %	32.82
Greenwood Plaza	Englewood	CO	2000	196,236	196,236	100.0 %	25.44
390 Interlocken	Broomfield	CO	2002	241,512	237,141	98.2 %	32.84
<b>West Total</b>				<b>2,620,017</b>	<b>2,316,817</b>	<b>88.4 %</b>	<b>33.10</b>
<b>Total Operating Properties</b>				<b>9,504,634</b>	<b>8,171,171</b>	<b>86.0 %</b>	<b>29.92</b>
<b>Redevelopment Properties (c)</b>							
Forest Park	Charlotte	NC	1999	62,212	—	— %	—
Blue Lagoon Drive	Miami	FL	2002	213,182	—	— %	—
801 Marquette Ave	Minneapolis	MN	1923/2017	129,821	36,571	28.2 %	20.49
<b>Total Redevelopment Properties</b>				<b>405,215</b>	<b>36,571</b>	<b>9.0 %</b>	<b>20.49</b>
<b>Grand Total</b>				<b>9,909,849</b>	<b>8,207,742</b>	<b>82.8 %</b>	<b>\$ 29.88</b>

- (a) Based on weighted occupied square feet for the year ended December 31, 2019, 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 31, 2019 per weighted occupied square foot.
- (c) Redevelopment Properties include properties in the process of being redeveloped, or are completed but not yet stabilized.

The information presented below is a lease expiration table for ten years and thereafter, stating (i) the number of tenants whose leases will expire, (ii) the total area in square feet covered by such leases, (iii) the annual rental represented by such leases in dollars and by square feet, and (iv) the percentage of gross annual rental represented by such leases.

Year of Lease Expiration December 31,	Number of Leases Expiring Within the Year (a)	Rentable Square Footage Subject to Expiring Leases	Annualized Rent Under Expiring Leases (b)	Annualized Rent Per Square Foot Under Expiring Leases	Percentage of Total Annualized Rent Under Expiring Leases	Cumulative Total
2020	67 (c)	761,756	\$ 24,132,385	\$ 31.68	10.1 %	10.1 %
2021	64	799,020	24,258,531	30.36	10.1 %	20.2 %
2022	79	1,182,547	39,110,866	33.07	16.3 %	36.5 %
2023	61	650,569	19,426,005	29.86	8.1 %	44.6 %
2024	64	875,989	25,077,473	28.63	10.5 %	55.1 %
2025	51	831,131	19,859,472	23.89	8.3 %	63.4 %
2026	21	877,629	28,510,343	32.49	11.9 %	75.3 %
2027	17	625,830	17,030,830	27.21	7.1 %	82.4 %
2028	11	338,107	9,092,017	26.89	3.8 %	86.2 %
2029	9	339,437	10,477,445	30.87	4.4 %	90.6 %
2030 and thereafter	70	1,251,672 (d)	22,381,152	17.88	9.4 %	100.0 %
Leased total	514	8,533,687	\$ 239,356,519	\$ 28.05	100.0 %	
Vacancies as of 12/31/19		1,174,774				
Redevelopment Properties (e)		201,388				
<b>Total Portfolio Square Footage</b>		<b>9,909,849</b>				

- (a) The number of leases approximates the number of tenants. Tenants with lease maturities in different years are included in annual totals for each lease. Tenants may have multiple leases in the same year.
- (b) Annualized rent represents the monthly rent charged, including tenant reimbursements, for each lease in effect at December 31, 2019 multiplied by 12. Tenant reimbursements generally include payment of real estate taxes, operating expenses and common area maintenance and utility charges.
- (c) Includes 4 leases that are month-to-month.
- (d) Includes 106,709 square feet that are non-revenue producing building amenities.
- (e) Redevelopment Properties include properties being redeveloped, or are completed but not yet stabilized.

### **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.

## PART II

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

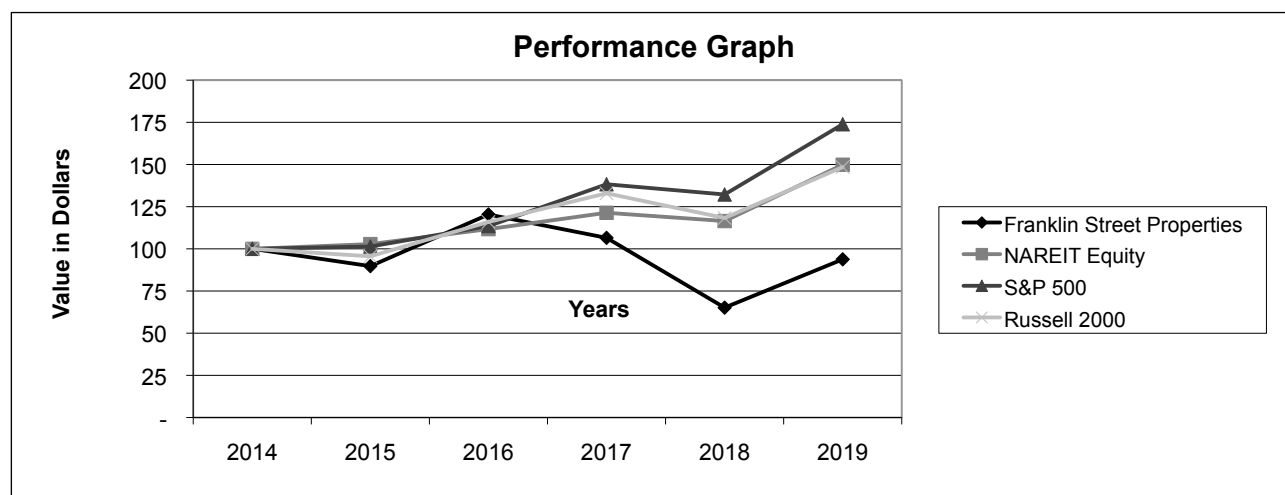
Our common stock is listed on the NYSE American under the symbol “FSP”.

As of February 3, 2020, there were 9,610 holders of our common stock, including both holders of record and participants in securities position listings.

While not guaranteed, we expect to continue to pay cash dividends on our common stock in the future. See Part I, Item 1A Risk Factors, “Our level of dividends may fluctuate.” for additional information.

#### STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return on the Company’s common stock between December 31, 2014 and December 31, 2019 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, 2014 and assumes that any distributions are reinvested.



	As of December 31,					
	2014	2015	2016	2017	2018	2019
FSP	\$ 100	\$ 90	\$ 120	\$ 107	\$ 65	\$ 94
NAREIT Equity	100	103	112	121	116	150
S&P 500	100	101	114	138	132	174
Russell 2000	100	96	116	133	118	148

#### 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 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.



**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.

<b>(In thousands, except per share amounts)</b>	<b>Year Ended December 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Operating Data:</b>					
Total revenue	\$ 269,065	\$ 268,870	\$ 272,588	\$ 249,888	\$ 243,867
Net income (loss)	6,475	13,069	(15,944)	8,378	35,014
Basic and diluted income (loss) per share:	<u>\$ 0.06</u>	<u>\$ 0.12</u>	<u>\$ (0.15)</u>	<u>\$ 0.08</u>	<u>\$ 0.35</u>
Distributions declared per share outstanding:	\$ 0.36	\$ 0.46	\$ 0.76	\$ 0.76	\$ 0.76
<b>As of December 31,</b>					
<b>Balance Sheet Data:</b>					
Total assets	\$ 1,842,654	\$ 1,898,102	\$ 1,990,512	\$ 2,088,133	\$ 1,919,015
Total liabilities	1,056,258	1,060,468	1,119,220	1,126,089	983,359
Total shareholders’ equity	786,396	837,634	871,292	962,044	935,656

## **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, changes in interest rates as a result of economic conditions or a downgrade in our credit rating, 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, changes in energy prices, 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 a single reportable segment: real estate operations. The real estate operations market 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 infill and central business district office properties in the United States sunbelt and mountain west regions as well as select opportunistic markets. We believe that the United States sunbelt and mountain west regions have macro-economic drivers that have the potential to increase occupancies and rents. We seek value-oriented investments with an eye towards long-term growth and appreciation, as well as current income.

As of December 31, 2019, approximately 7.8 million square feet, or approximately 78% of our total owned portfolio, was located in Atlanta, Dallas, Denver, Houston and Minneapolis. From time-to-time we may dispose of our smaller, suburban office assets and replace them with larger urban infill and central business district office assets. As we execute this strategy, short term operating results could be adversely impacted. However, we believe that the transformed portfolio has the potential to provide higher profit and asset value growth over a longer period of time.

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 economic growth, 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, the pace of economic growth and/or recessionary concerns, uncertainty about government fiscal, monetary, trade and tax policies, changes in currency exchange rates, geopolitical events, the regulatory environment, the availability of credit and interest rates. Any increase in interest rates could result in increased borrowing costs to us. However, we could also benefit from any further improved economic fundamentals and increasing levels of employment. We believe

that the economy is improving in many markets and appears to be in a broad-based upswing. However, future economic factors may negatively affect real estate values, occupancy levels and property income.

### *Real Estate Operations*

#### ***Leasing***

As of December 31, 2019, our real estate portfolio was comprised of 32 operating properties, which we refer to as our operating properties, and 3 redevelopment properties, which we refer to as our redevelopment properties, that are in the process of being redeveloped, or are completed but not yet stabilized. We collectively refer to our operating and our redevelopment properties as our owned portfolio. Our 32 operating properties were approximately 87.6% leased as of December 31, 2019, a decrease from 89.0% as of December 31, 2018. The 1.4% decrease in leased space was a result of the impact of lease expirations and terminations, which exceeded leasing completed during the year ended December 31, 2019. As of December 31, 2019, we had approximately 1,175,000 square feet of vacancy in our operating properties compared to approximately 1,046,000 square feet of vacancy at December 31, 2018. During the year ended December 31, 2019, we leased approximately 1,417,000 square feet of office space, of which approximately 883,000 square feet were with existing tenants, at a weighted average term of 8.3 years. On average, tenant improvements for such leases were \$34.44 per square foot, lease commissions were \$13.51 per square foot and rent concessions were approximately three months of free rent. Average GAAP base rents under such leases were \$31.78 per square foot, or 10.9% higher than average rents in the respective properties as applicable compared to the year ended December 31, 2018.

As of December 31, 2019, our three redevelopment properties included an approximately 130,000 square foot redevelopment property known as 801 Marquette in Minneapolis, Minnesota, an approximately 213,000 square foot property known as Blue Lagoon in Miami, Florida and an approximately 62,000 square foot property known as Forest Park in Charlotte, North Carolina. Given the length of the redevelopment and lease-up process, these properties are not placed in service until, in some cases, years after we commence the project.

The redevelopment at 801 Marquette was substantially completed at the end of the second quarter of 2017 and is in the process of being leased up; however, it is not stabilized. As of December 31, 2019, we had leases signed and tenants occupying approximately 37.0% of the rentable square feet of the property. We expect to incur redevelopment and lease-up costs of \$28.8 million, of which we had incurred approximately \$23.0 million as of December 31, 2019.

The redevelopment of Blue Lagoon commenced in December 2018 following the maturity of a lease with a major tenant that occupied 100% of the property. On September 13, 2019, we entered into a lease agreement with a new tenant with an initial term of 16 years for approximately 156,000 square feet, or 73.1% of the property's rentable square feet. We expect to incur total restoration, redevelopment and lease-up costs of \$38.9 million, which include work on the roof of the building, costs to make the space suitable for multiple tenants and to increase parking at the property. As of December 31, 2019, we had incurred approximately \$8.7 million in total redevelopment costs. We anticipate completing the redevelopment by the end of 2020.

The redevelopment of Forest Park commenced in January 2019 following the maturity of a lease with a tenant that occupied 100% of the property through December 31, 2018. We expect to incur total redevelopment and lease-up costs of \$4.4 million, which include interior work to make the space suitable for multiple tenants. As of December 31, 2019, we had incurred approximately \$0.7 million in redevelopment costs. We anticipate completing the redevelopment by June 30, 2020.

As of December 31, 2019, leases for approximately 7.7% and 8.1% of the square footage in our owned portfolio are scheduled to expire during 2020 and 2021, respectively. As the first quarter of 2020 begins, we believe that our operating properties are well stabilized, with a balanced lease expiration schedule, and that existing vacancy is being actively marketed to numerous potential tenants. We believe that most of our largest property markets are now experiencing generally steady or improving rental conditions. We are seeing increased potential leasing activity in the energy influenced market of Denver compared to the last several years. We anticipate positive leasing activity within our operating properties throughout 2020.

While we cannot generally predict when an existing vacancy in our owned 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, we believe the potential for any of our tenants to default on its lease or to seek the protection of bankruptcy 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 2019:

- during the year ended December 31, 2019, we received approximately \$1.1 million as full repayment of a Sponsored REIT Loan with FSP Satellite Place Corp. ("Satellite Place") and we received approximately \$51 million as full repayment of a Sponsored REIT Loan with FSP Energy Tower I Corp.;
- on February 2, 2019, we received a cash distribution of approximately \$0.2 million from the liquidating trust of Grand Boulevard (defined below) and anticipate receiving additional liquidating distributions of approximately \$0.1 million in the aggregate as the trust is liquidated;
- on April 3, 2019 we received a cash distribution of approximately \$1.0 million from the liquidating trust of East Wacker (defined below); and
- we have continued to actively explore additional potential real estate investment opportunities and anticipate further real estate investments in the future.

During 2018:

- we received approximately \$1.1 million in cash from Satellite Place, as partial prepayment of a Sponsored REIT Loan;
- on July 19, 2018, an office property owned by a Sponsored REIT, FSP Grand Boulevard Corp. (Grand Boulevard) was sold to a third party. We held an equity investment in Grand Boulevard and received a liquidating distribution of its investment of \$6.2 million on July 20, 2018. The Company received an initial cash distribution of \$5.9 million from the liquidating trust of Grand Boulevard on August 17, 2018; and
- on September 24, 2018, an office property owned by a Sponsored REIT, FSP 303 East Wacker Drive Corp (East Wacker) was sold to a third party. We held an equity investment in East Wacker and received a liquidating distribution of its investment of \$70.0 million on September 25, 2018. We received an initial cash distribution of \$69.0 million from the liquidating trust of East Wacker on September 27, 2018.

During 2017:

- on January 6, we received approximately \$6.2 million in proceeds from the sale of a property located in Milpitas, California;
- on June 7, we received approximately \$9.0 million in cash from FSP 1441 Main Street Corp. as repayment in full of a Sponsored REIT Loan;
- during the year ended December 31, we received approximately \$1.1 million in cash from Satellite Place, as partial prepayment of a Sponsored REIT Loan; and
- on October 20, we received approximately \$31.6 million in proceeds from the sale of a property located in Baltimore, Maryland.

### ***Property Dispositions and Assets Held for Sale***

During the three months ended June 30, 2017, we reached a decision to classify our office property located in Baltimore, Maryland as an asset held for sale. 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 \$20.5 million and was classified as an asset held for sale of \$31.9 million at June 30, 2017. During the three months ended September 30, 2017, we increased the provision for loss by \$0.3 million to \$20.7 million and the property was classified as an asset held for sale in the amount of \$31.6 million at September 30, 2017. We sold the property on October 20, 2017 for net proceeds of \$31.6 million resulting in a total loss of \$20.8 million.

During the three months ended December 31, 2016, we reached an agreement to sell an office property located in Milpitas, California. The property was classified as an asset held for sale at December 31, 2016 and was sold on January 6, 2017 at a \$2.3 million gain.

The disposal of these properties did not represent a strategic shift that has a major effect on the Company's operations and financial results. Accordingly, the properties remained classified within continuing operations for all periods presented.

We will continue to evaluate our portfolio, and in the future may decide to dispose of additional properties from time-to-time in the ordinary course of business. As an important part of our total return strategy, we intend to be active in property dispositions when we believe that we have maximized value and 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 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 collectability. Lessors recognize the effect of a change in their assessment of whether the collectability of operating lease receivables are probable as an adjustment to lease income rather than bad debt expense.

### *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. The ineffective portion of the derivatives' fair value is recognized directly into earnings as "Other" in our 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 held preferred stock interests in two Sponsored REITs, both of which were liquidated during 2018. As a result of our common and preferred stock interests in these two Sponsored REITs, we exercised influence over, but did not control these entities. These preferred stock interests were accounted for using the equity method. Under the equity method of accounting our cost basis was 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.

The equity investments in Sponsored REITS were reviewed for impairment each reporting period. The Company recorded 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.

## Results of Operations

The following table shows financial results for the years ended December 31, 2019 and 2018.

(in thousands)	Year ended December 31,		
	2019	2018	Change
<b>Revenues:</b>			
Rental	\$ 265,527	\$ 263,777	\$ 1,750
Related party revenue:			
Management fees and interest income from loans	3,517	5,061	(1,544)
Other	21	32	(11)
Total revenues	<u>269,065</u>	<u>268,870</u>	<u>195</u>
<b>Expenses:</b>			
Real estate operating expenses	72,311	70,703	1,608
Real estate taxes and insurance	47,871	45,857	2,014
Depreciation and amortization	90,909	94,230	(3,321)
General and administrative	14,473	13,070	1,403
Interest	36,757	38,374	(1,617)
Total expenses	<u>262,321</u>	<u>262,234</u>	<u>87</u>
Income before taxes on income and equity in income of non-consolidated REITs			
	6,744	6,636	108
Tax expense on income	269	360	(91)
Equity in income of non-consolidated REITs	<u>—</u>	<u>6,793</u>	<u>(6,793)</u>
Net income	<u>\$ 6,475</u>	<u>\$ 13,069</u>	<u>\$ (6,594)</u>

### *Comparison of the year ended December 31, 2019 to the year ended December 31, 2018*

#### Revenues

Total revenues increased by \$0.2 million to \$269.1 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily a result of:

- An increase in rental revenue of approximately \$1.7 million arising primarily from increased termination fees for the year ended December 31, 2019, as compared to the year ended December 31, 2018, and rental income earned from leases commencing in 2019 and 2018, which was offset by the loss of rental income from leases that expired in 2019 and 2018. Our leased space in our operating properties was 87.6% at December 31, 2019 and 89.0% at December 31, 2018.

The increase was partially offset by:

- A decrease in interest income from Sponsored REIT loans of approximately \$1.5 million primarily as a result of repayment of an outstanding loan by a Sponsored REIT of approximately \$51 million in June 2019.

#### Expenses

Total expenses increased by \$0.1 million to \$262.3 million for the year ended December 31, 2019, as compared to the year ended December 31, 2018. The increase was primarily a result of:

- An increase in real estate operating expenses and real estate taxes and insurance of approximately \$3.6 million.



- An increase in general and administrative expenses of \$1.4 million, which was primarily attributable to personnel related expenses and lease acquisition costs.

These increases were partially offset by:

- A decrease in depreciation and amortization of approximately \$3.3 million.
- A decrease in interest expense of approximately \$1.6 million. The decrease was primarily attributable to lower debt outstanding, which was partially offset by higher interest rates during the year ended December 31, 2019 compared to the year ended December 31, 2018.

#### Tax expense on income

Included in income taxes is the Revised Texas Franchise Tax, which is a tax on revenues from Texas properties, which increased \$75,000, and federal and other income taxes, which decreased by \$166,000, during the year ended December 31, 2019, as compared to the year ended December 31, 2018, primarily as a result of a refund arising due to the provisions of the Tax Cuts and Jobs Act of 2017.

#### Equity in income of non-consolidated REITs

Equity in income from non-consolidated REITs was \$6.8 million for the year ended December 31, 2018. All of our investments in non-consolidated REITs were liquidated during 2018. The equity in income during the year ended December 31, 2018 consisted of equity in income from our preferred stock investment in East Wacker of \$7.2 million, which sold its property on September 24, 2018, and was partially offset by equity in loss from our preferred stock investment in Grand Boulevard of \$0.1 million, which sold its property on July 19, 2018. In addition, for the three months ended June 30, 2018, we recognized an impairment charge of \$0.3 million, which represented the other-than-temporary decline in the fair value below the carrying value of the Company's investments in non-consolidated REITs.

#### Net income

Net income for the year ended December 31, 2019 was \$6.5 million compared to net income of \$13.1 million for the year ended December 31, 2018, for the reasons described above.

The following table shows financial results for the years ended December 31, 2018 and 2017.

(in thousands)	Year ended December 31,		
	2018	2017	Change
<b>Revenues:</b>			
Rental	\$ 263,777	\$ 267,265	\$ (3,488)
Related party revenue:			
Management fees and interest income from loans	5,061	5,285	(224)
Other	32	38	(6)
Total revenues	<u>268,870</u>	<u>272,588</u>	<u>(3,718)</u>
<b>Expenses:</b>			
Real estate operating expenses	70,703	71,212	(509)
Real estate taxes and insurance	45,857	45,841	16
Depreciation and amortization	94,230	101,258	(7,028)
General and administrative	13,070	13,471	(401)
Interest	38,374	32,387	5,987
Total expenses	<u>262,234</u>	<u>264,169</u>	<u>(1,935)</u>
Gain (loss) on sale of properties	—	(18,481)	18,481
Other	—	(1,878)	1,878
Income (loss) before taxes on income and equity in income (loss) of non-consolidated REITs	6,636	(11,940)	18,576
Taxes on income	360	400	(40)
Equity in income (losses) of non-consolidated REITs	<u>6,793</u>	<u>(3,604)</u>	<u>10,397</u>
Net income (loss)	<u>\$ 13,069</u>	<u>\$ (15,944)</u>	<u>\$ 29,013</u>

***Comparison of the year ended December 31, 2018 to the year ended December 31, 2017***

Revenues

Total revenues decreased by approximately \$3.7 million to \$268.9 million for the year ended December 31, 2018, as compared to the year ended December 31, 2017. The decrease was primarily a result of:

- A decrease in rental revenue of approximately \$3.5 million arising primarily from the loss of rental income from leases that expired in 2018 and 2017 and from the loss of revenue from properties that we sold on January 6, 2017 and October 20, 2017. The decrease was partially offset by rental income earned from leases commencing in 2018 and 2017. Our leased space in our operating properties decreased 0.7% to 89.0% at December 31, 2018 compared to 89.7% at December 31, 2017, lease expirations exceeding new leases signed and partially as a result of classification of two properties as redevelopment properties.
- A decrease in management fee income of approximately \$0.1 million primarily as a result of the liquidation of three Sponsored REITs during 2018 and one Sponsored REIT during 2017.
- A decrease in interest income from loans to Sponsored REITs of approximately \$0.1 million as a result of repayments of Sponsored REIT Loans, which was partially offset by higher interest rates in 2018 compared to 2017.

Expenses

Total expenses decreased by \$1.9 million to \$262.2 million for the year ended December 31, 2018, as compared to the year ended December 31, 2017. The decrease was primarily a result of:

- A decrease in depreciation and amortization of approximately \$7.0 million, which were primarily attributable to the disposition of two properties during 2017.
- A decrease in real estate operating expenses of \$0.5 million.

- A decrease in general and administrative expenses of \$0.4 million as a result of decreases in personnel expenses. We had 38 employees as of February 7, 2019 and December 31, 2018, and 39 employees as of December 31, 2017.

These decreases were partially offset by:

- An increase in interest expense of approximately \$6.0 million to \$38.4 million for the year ended December 31, 2018 compared to the same period in 2017. The increase was primarily attributable to interest accruing on the Senior Notes (as defined below), which were issued on December 20, 2017 at a weighted average rate of approximately 4.10%, and used to reduce the outstanding balance on the BAML Revolver, a 0.19% increase in the average interest rate on the BAML Term Loan, higher short-term interest rates on the BAML Revolver and JPM Term Loan, and an increase in amortization of deferred financing costs during the year ended December 31, 2018, as compared to the same period in 2017.

#### Equity in income (loss) of non-consolidated REITs

Equity in income from non-consolidated REITs is \$6.8 million for the year ended December 31, 2018 compared to equity in loss of \$3.6 million during the year ended December 31, 2017. The equity in income (loss) during the year ended December 31, 2018 consisted of equity in income from our preferred stock investment in East Wacker of \$7.2 million, which sold its property on September 24, 2018, and was partially offset by equity in loss from our preferred stock investment in Grand Boulevard of \$0.1 million, which sold its property on July 19, 2018. In addition, during the three months ended June 30, 2018 and December 31, 2017, respectively, we recognized an impairment charge of \$0.3 million and \$2.5 million, respectively, which represented the other-than-temporary decline in the fair value below the carrying value of the Company's investments in non-consolidated REITs.

#### Gains (loss) on sale of properties

During the three months ended December 31, 2016, we reached an agreement to sell an office property located in Milpitas, California. The property was classified as an asset held for sale at December 31, 2016 and was sold on January 6, 2017 at a \$2.3 million gain. During the three months ended June 30, 2017, we reached a decision to classify our office property located in Baltimore, Maryland as an asset held for sale. 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 \$20.5 million and the property was classified as an asset held for sale of \$31.9 million at June 30, 2017. During the three months ended September 30, 2017, we increased the provision for loss by \$0.3 million to \$20.7 million and the property was classified as an asset held for sale in the amount of \$31.6 million at September 30, 2017. We sold the property on October 20, 2017 for net proceeds of \$31.6 million resulting in a total loss of \$20.8 million.

#### Other

Other expense of \$1.9 million during the year ended December 31, 2017 was attributable to hedge ineffectiveness from our derivatives' fair value prior to October 18, 2017. The ineffective portion of the derivatives' fair value was recognized directly into earnings each quarter as hedge ineffectiveness.

#### Taxes on income

Included in income taxes is the Revised Texas Franchise Tax, a tax on revenues from Texas properties, which decreased \$36,000 and federal and other income taxes decreased \$4,000 for year ended December 31, 2018 compared to the same period in 2017.

#### Net income (loss)

Net income for the year ended December 31, 2018 was \$13.1 million compared to a net loss of \$15.9 million for the year ended December 31, 2017, for the reasons described above.

## Non-GAAP Financial Measures

### Funds From Operations

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

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

Other real estate companies and the National Association of Real Estate Investment Trusts, or NAREIT may define this term in a different manner. We have included the NAREIT FFO definition as of May 17, 2016 in the table and note that other REITs may not define FFO in accordance with the NAREIT definition or may interpret the current NAREIT definition differently than we do.

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

The calculations of FFO are shown in the following table:

<b>(in thousands):</b>	<b>For the Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 6,475	\$ 13,069	\$ (15,944)
(Gain) loss on sale of properties and properties held for sale	—	—	18,481
Equity in income of non-consolidated REITs	—	(6,793)	3,604
FFO from non-consolidated REITs	—	2,511	3,173
Depreciation and amortization	90,507	93,674	100,227
NAREIT FFO	96,982	102,461	109,541
Lease Acquisition costs	560	—	18
<b>Funds From Operations</b>	<b>\$ 97,542</b>	<b>\$ 102,461</b>	<b>\$ 111,437</b>

### Net Operating Income (NOI)

The Company provides property performance based on NOI. Management believes that investors are interested in this information. NOI is a non-GAAP financial measure that the Company defines as net income (the most directly comparable GAAP financial measure) plus general and administrative expenses, depreciation and amortization, including amortization of acquired above and below market lease intangibles and impairment charges, interest expense, less equity in earnings of nonconsolidated REITs, interest income, management fee income, hedge ineffectiveness, gains or losses on the sale of assets and excludes non-property specific income and expenses. The information presented includes footnotes and the data is shown by region with properties owned in both periods, which we call Same Store. The Comparative Same Store results include properties held for the periods presented and exclude properties that are non-operating, being developed or redeveloped, dispositions and significant nonrecurring income such as bankruptcy settlements and lease termination fees. NOI, as defined by the Company, may not be comparable to NOI reported by

other REITs that define NOI differently. NOI should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of the Company's liquidity or its ability to make distributions. The calculations of NOI are shown in the following table:

(in thousands) Region	Rentable Square Feet	Net Operating Income (NOI)*			
		Year Ended 31-Dec-19	Year Ended 31-Dec-18	Inc (Dec)	% Change
East	944	\$ 12,661	\$ 14,704	\$ (2,043)	(13.9)%
MidWest	1,554	20,877	21,344	(467)	(2.2)%
South	4,387	64,513	57,514	6,999	12.2 %
West	2,620	44,907	44,192	715	1.6 %
Property NOI from the continuing portfolio	<u>9,505</u>	142,958	137,754	5,204	3.8 %
Dispositions, Non-Operating, Development or Redevelopment		(488)	6,534	(7,022)	(5.1)%
Property NOI		<u>\$ 142,470</u>	<u>\$ 144,288</u>	<u>\$ (1,818)</u>	<u>(1.3)%</u>
Same Store		\$ 142,958	\$ 137,754	\$ 5,204	3.8 %
Less Nonrecurring Items in NOI (a)		<u>8,577</u>	<u>6,101</u>	<u>2,476</u>	<u>(1.7)%</u>
Comparative Same Store		<u>\$ 134,381</u>	<u>\$ 131,653</u>	<u>\$ 2,728</u>	<u>2.1 %</u>
			<b>Year Ended</b>	<b>Year Ended</b>	
<b>Reconciliation to Net income</b>		<b>31-Dec-19</b>	<b>31-Dec-18</b>		
Net Income		\$ 6,475	\$ 13,069		
Add (deduct):					
Management fee income			(2,526)	(2,844)	
Depreciation and amortization			90,909	94,230	
Amortization of above/below market leases			(402)	(556)	
General and administrative			14,473	13,070	
Interest expense			36,757	38,374	
Interest income			(3,338)	(4,610)	
Equity in losses of non-consolidated REITs			—	(6,793)	
Non-property specific items, net			122	348	
Property NOI		<u>\$ 142,470</u>	<u>\$ 144,288</u>		

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

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

## Liquidity and Capital Resources

Cash and cash equivalents were \$9.8 million and \$11.2 million at December 31, 2019 and December 31, 2018, respectively. The decrease of \$1.4 million is attributable to \$81.9 million provided by operating activities, less \$19.6 million used by investing activities and \$63.7 million used in financing activities. Management believes that existing cash, cash anticipated to be generated internally by operations and our existing debt financing will be sufficient to meet working capital requirements and anticipated capital expenditures for at least the next 12 months. Although there is no guarantee that we will be able to obtain the funds necessary for our future growth, we anticipate generating funds from continuing real estate operations. We believe that we have adequate funds to cover unusual expenses and capital improvements, in addition to normal operating expenses. Our ability to maintain or increase our level of dividends to stockholders, however, depends in significant part upon the level of rental income from our real properties and our interest costs.

### *Operating Activities*

Cash provided by our operating activities of \$81.9 million is primarily attributable to net income of \$6.5 million plus the add-back of \$84.8 million of non-cash expenses, an increase in accounts payable and accrued expenses of \$4.3 million, an increase in tenant security deposits of \$3.0 million, a decrease in prepaid expenses and other assets of \$2.3 million and a decrease in tenant rent receivables of \$0.1 million. These increases were partially offset by a \$15.1 million increase in payments of deferred leasing commissions and a \$4.0 million increase in lease acquisition costs.

### *Investing Activities*

Cash used by investing activities for the year ended December 31, 2019 of \$19.6 million is primarily attributable to purchases of other real estate assets and office equipment investments of approximately \$70.7 million and an investment in a related party mortgage receivable of \$2.4 million. These uses were partially offset by repayments received from two related party mortgage receivables of \$52.0 million and proceeds received from a liquidating trust of \$1.5 million.

### *Financing Activities*

Cash used in financing activities for the year ended December 31, 2019 of \$63.7 million is primarily attributable to distributions paid to stockholders of \$38.6 million, net repayments on the BAML Revolver (as defined below) of \$25.0 million and an increase to deferred financing costs of \$0.1 million.

### *JPM Term Loan*

On August 2, 2018, the Company entered into an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and lender (“JPMorgan”), and the other lending institutions party thereto (the “JPM Credit Agreement”), which provides a single unsecured bridge loan in the aggregate principal amount of \$150 million (the “JPM Term Loan”) that remains fully advanced and outstanding. The JPM Term Loan matures on November 30, 2021. The JPM Term Loan was previously evidenced by a Credit Agreement, dated November 30, 2016, among the Company, JPMorgan, as administrative agent and lender, and the other lending institutions party thereto, as amended by a First Amendment, dated October 18, 2017.

The JPM Term Loan bears interest at either (i) a number of basis points over a LIBOR-based rate depending on the Company’s credit rating (125.0 basis points over a LIBOR-based rate at December 31, 2019) or (ii) a number of basis points over the base rate depending on the Company’s credit rating (25.0 basis points over the base rate at December 31, 2019).

The margin over the LIBOR-based rate or base rate is determined based on the Company's credit rating pursuant to the following grid:

LEVEL	CREDIT RATING	LIBOR-BASED RATE MARGIN	BASE RATE MARGIN
I	A- /A3 (or higher)	85.0 bps	— bps
II	BBB+ /Baa1	90.0 bps	— bps
III	BBB /Baa2	100.0 bps	— bps
IV	BBB- /Baa3	125.0 bps	25.0 bps
V	<BBB-/Baa3	165.0 bps	65.0 bps

For purposes of the JPM Term Loan, base rate means, for any day, a fluctuating rate per annum equal to the greatest of: (i) JPMorgan Chase Bank, N.A.'s prime rate in effect on such day, (ii) the greater of the Federal Funds Rate or the overnight bank funding rate in effect on such day, plus 0.50% (but no less than zero), and (iii) the one month Adjusted LIBOR based rate for a such day plus 1.00%. For purposes of the JPM Term Loan, the LIBOR-based rate means, for any interest period, the LIBOR rate for a period equal in length to the applicable interest period multiplied by the statutory reserve rate. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Although the interest rate on the JPM Term Loan is variable under the JPM Credit Agreement, the Company fixed the LIBOR-based rate on a portion of the JPM Term Loan by entering into interest rate swap transactions. On March 7, 2019, the Company entered into ISDA Master Agreements with various financial institutions to hedge a \$100 million portion of the future LIBOR-based rate risk under the JPM Credit Agreement. Effective March 29, 2019, the Company fixed the LIBOR-based rate at 2.44% per annum on a \$100 million portion of the JPM Term Loan until November 30, 2021. Accordingly, based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on a \$100 million portion of the JPM Term Loan was 3.69% per annum.

Based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on the unhedged \$50 million portion of the JPM Term Loan was 3.06% per annum. The weighted average interest rate on the unhedged \$50 million portion of the JPM Term Loan during the year ended December 31, 2019 was approximately 3.54% per annum. The weighted average interest rate on the JPM Term Loan during the year ended December 31, 2018 was approximately 3.33% per annum.

The JPM Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The JPM Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a minimum fixed charge coverage ratio, a maximum secured leverage ratio, a maximum leverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The JPM Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the JPM Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the JPM Credit Agreement immediately due and payable, and enforce any and all rights of the lenders or administrative agent under the JPM Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, all outstanding obligations of the Company will become immediately due and payable. We were in compliance with the JPM Term Loan financial covenants as of December 31, 2019.

#### *BMO Term Loan*

On September 27, 2018, the Company entered into a Second Amended and Restated Credit Agreement among the Company, the lending institutions party thereto and Bank of Montreal, as administrative agent (the "BMO Credit Agreement"). The BMO Credit Agreement provides for a single, unsecured term loan borrowing in the amount of \$220 million (the "BMO Term Loan") that remains fully advanced and outstanding. The BMO Term Loan consists of a \$55

million tranche A term loan and a \$165 million tranche B term loan. The tranche A term loan matures on November 30, 2021 and the tranche B term loan matures on January 31, 2024. The BMO Credit Agreement also includes an accordion feature that allows up to \$100 million of additional loans, subject to receipt of lender commitments and satisfaction of certain customary conditions.

The BMO Term Loan bears interest at either (i) a number of basis points over LIBOR depending on the Company's credit rating (125 basis points over LIBOR at December 31, 2019) or (ii) a number of basis points over the base rate depending on the Company's credit rating (25 basis points over the base rate at December 31, 2019).

The margin over LIBOR rate or base rate is determined based on the Company's credit rating pursuant to the following grid:

LEVEL	CREDIT RATING	LIBOR RATE MARGIN	BASE RATE MARGIN
I	A- /A3 (or higher)	85.0 bps	— bps
II	BBB+ /Baa1	90.0 bps	— bps
III	BBB /Baa2	100.0 bps	— bps
IV	BBB- /Baa3	125.0 bps	25.0 bps
V	<BBB-/Baa3	165.0 bps	65.0 bps

For purposes of the BMO Term Loan, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 0.50%, and (iii) the one month LIBOR based rate for such day plus 1.00%. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Although the interest rate on the BMO Term Loan is variable under the BMO Credit Agreement, the Company fixed the base LIBOR interest rate by entering into interest rate swap transactions. On August 26, 2013, the Company entered into an ISDA Master Agreement with Bank of Montreal that fixed the base LIBOR interest rate on the BMO Term Loan at 2.32% per annum until August 26, 2020. On February 20, 2019, the Company entered into ISDA Master Agreements with a group of banks that fixed the base LIBOR interest rate on the BMO Term Loan at 2.39% per annum for the period beginning on August 26, 2020 and ending January 31, 2024. Accordingly, based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on the BMO Term Loan was 3.57% per annum.

The BMO Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BMO Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The BMO Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the BMO Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the BMO Credit Agreement immediately due and payable, terminate the lenders' commitments to make loans under the BMO Credit Agreement, and enforce any and all rights of the lenders or administrative agent under the BMO Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. We were in compliance with the BMO Term Loan financial covenants as of December 31, 2019.



## *BAML Credit Facility*

On July 21, 2016, the Company entered into a First Amendment (the “BAML First Amendment”), and on October 18, 2017, the Company entered into a Second Amendment (the “BAML Second Amendment”), to the Second Amended and Restated Credit Agreement dated October 29, 2014 among the Company, the lending institutions party thereto and Bank of America, N.A., as administrative agent, L/C Issuer and Swing Line Lender (as amended by the BAML First Amendment and the BAML Second Amendment, the “BAML Credit Facility”) that continued an existing unsecured revolving line of credit (the “BAML Revolver”) and an existing term loan (the “BAML Term Loan”).

### BAML Revolver Highlights

- The BAML Revolver is for borrowings, at the Company's election, of up to \$600 million. Borrowings made pursuant to the BAML Revolver may be revolving loans, swing line loans or letters of credit, the combined sum of which may not exceed \$600 million outstanding at any time.
- Borrowings made pursuant to the BAML Revolver may be borrowed, repaid and reborrowed from time to time until the maturity date of January 12, 2022. The Company has the right to extend the maturity date of the BAML Revolver by two additional 6 month periods, or until January 12, 2023, upon payment of a fee and satisfaction of certain customary conditions.
- The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity applicable to the BAML Revolver and/or the BAML Term Loan, subject to receipt of lender commitments and satisfaction of certain customary conditions.

As of December 31, 2019, there were no borrowings outstanding under the BAML Revolver. The BAML Revolver bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.20% over LIBOR at December 31, 2019) or (ii) a margin over the base rate depending on the Company's credit rating (0.20% over the base rate at December 31, 2019). The BAML Credit Facility also obligates the Company to pay an annual facility fee in an amount that is also based on the Company's credit rating. The facility fee is assessed against the total amount of the BAML Revolver, or \$600 million (0.25% at December 31, 2019). The amount of any applicable facility fee, and the margin over LIBOR rate or base rate is determined based on the Company's credit rating pursuant to the following grid.

<u>Level</u>	<u>Credit Rating</u>	<u>LIBOR Rate Margin</u>	<u>Facility Fee</u>	<u>Base Rate Margin</u>
I	A- /A3 (or higher)	0.825 %	0.125 %	0.000 %
II	BBB+ /Baa1	0.875 %	0.150 %	0.000 %
III	BBB /Baa2	1.000 %	0.200 %	0.000 %
IV	BBB- /Baa3	1.200 %	0.250 %	0.200 %
V	<BBB-/Baa3	1.550 %	0.300 %	0.550 %

For purposes of the BAML Credit Facility, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 0.50%, and (iii) the one month LIBOR based rate for such day plus 1.00%. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Based upon the Company's credit rating, as of December 31, 2019, the interest rate on the BAML Revolver was 2.96% per annum. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the year ended December 31, 2019 was approximately 3.67% per annum. As of December 31, 2018, there were borrowings of \$25 million outstanding under the BAML Revolver at an interest rate of 3.63% per annum. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the year ended December 31, 2018 was approximately 3.09% per annum.

### BAML Term Loan Highlights

- The BAML Term Loan is for \$400 million.

- The BAML Term Loan matures on January 12, 2023.
- The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity to the BAML Revolver and/or the BAML Term Loan, subject to receipt of lender commitments and satisfaction of certain customary conditions.
- On September 27, 2012, the Company drew down the entire \$400 million under the BAML Term Loan and such amount remains fully advanced and outstanding under the BAML Term Loan.

The BAML Term Loan bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.35% over LIBOR at December 31, 2019) or (ii) a margin over the base rate depending on the Company's credit rating (0.35% over the base rate at December 31, 2019). The margin over LIBOR rate or base rate is determined based on the Company's credit rating pursuant to the following grid:

Level	Credit Rating	LIBOR Rate Margin	Base Rate Margin
I	A- /A3 (or higher)	0.900 %	0.000 %
II	BBB+ /Baa1	0.950 %	0.000 %
III	BBB /Baa2	1.100 %	0.100 %
IV	BBB- /Baa3	1.350 %	0.350 %
V	<BBB-/Baa3	1.750 %	0.750 %

For purposes of the BAML Credit Facility, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 0.50%, and (iii) the one month LIBOR based rate for such day plus 1.00%. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Although the interest rate on the BAML Credit Facility is variable, the Company fixed the base LIBOR interest rate on the BAML Term Loan by entering into interest rate swap transactions. On July 22, 2016, the Company entered into ISDA Master Agreements with a group of banks that fixed the base LIBOR interest rate on the BAML Term Loan at 1.12% per annum for the period beginning on September 27, 2017 and ending on September 27, 2021. Accordingly, based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on the BAML Term Loan was 2.47% per annum.

#### BAML Credit Facility General Information

The BAML Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BAML Credit Facility also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The BAML Credit Facility provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the BAML Credit Facility). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the BAML Credit Facility immediately due and payable, terminate the lenders' commitments to make loans under the BAML Credit Facility, and enforce any and all rights of the lenders or administrative agent under the BAML Credit Facility and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. We were in compliance with the BAML Credit Facility financial covenants as of December 31, 2019.

The Company may use the proceeds of the loans under the BAML Credit Facility 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 BAML Credit Facility.

### Senior Notes

On October 24, 2017, the Company entered into a note purchase agreement (the “Note Purchase Agreement”) with the various purchasers named therein (the “Purchasers”) in connection with a private placement of senior unsecured notes. Under the Note Purchase Agreement, the Company agreed to sell to the Purchasers an aggregate principal amount of \$200,000,000 of senior unsecured notes consisting of (i) 3.99% Series A Senior Notes due December 20, 2024 in an aggregate principal amount of \$116 million (the “Series A Notes”) and (ii) 4.26% Series B Senior Notes due December 20, 2027 in an aggregate principal amount of \$84 million (the “Series B Notes,” and, together with the Series A Notes, the “Senior Notes”). On December 20, 2017, the Senior Notes were funded and proceeds were used to reduce the outstanding balance of the BAML Revolver.

The Note Purchase Agreement contains customary financial covenants, including a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, and a maximum unencumbered leverage ratio. The Note Purchase Agreement also contains restrictive covenants that, among other things, restrict the ability of the Company and its subsidiaries to enter into transactions with affiliates, merge, consolidate, create liens, make certain restricted payments, enter into certain agreements or prepay certain indebtedness. Such financial and restrictive covenants are substantially similar to the corresponding covenants contained in the BAML Credit Facility, the BMO Credit Agreement and the JPM Credit Agreement. The Senior Notes financial covenants require, among other things, the maintenance of a fixed charge coverage ratio of at least 1.50; a maximum leverage ratio and an unsecured leverage ratio of no more than 60% (65% if there were a significant acquisition for a short period of time). In addition, the Note Purchase Agreement provides that the Note Purchase Agreement will automatically incorporate additional financial and other specified covenants (such as limitations on investments and distributions) that are effective from time to time under the existing credit agreements, other material indebtedness or certain other private placements of debt of the Company and its subsidiaries. The Note Purchase Agreement contains customary events of default, including payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events. In the case of an event of default, the Purchasers may, among other remedies, accelerate the payment of all obligations. We were in compliance with the Senior Notes financial covenants as of December 31, 2019.

### Equity Offering

As of December 31, 2019, we had an automatic shelf registration statement on Form S-3 on file with the Securities and Exchange Commission relating to the offer and sale, from time to time, of an indeterminate amount of our debt securities, common stock, preferred stock or depository shares. From time to time, we expect to issue debt securities, common stock, preferred stock or depository shares under our existing automatic shelf registration statements or a different registration statement to fund the acquisition of additional properties, to pay down any existing debt financing and for other corporate purposes.

### Contingencies

From time to time, we may provide financing to Sponsored REITs in the form of a construction loan and/or a revolving line of credit secured by a mortgage. As of December 31, 2019, we had one loan outstanding for \$21 million principal amount with one Sponsored REIT under such arrangements for the purpose of funding construction costs, capital expenditures, leasing costs or for other purposes. We anticipate that advances made under these facilities will be repaid at their maturity date or earlier from refinancing, long term financings of the underlying properties, cash flows from the underlying properties or another other capital event.

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

## Related Party Transactions

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

### Loans to Sponsored REITs

#### *Sponsored REIT Loans*

From time to time we may make secured loans (“Sponsored REIT Loans”) to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that advances made under these facilities will be repaid at their maturity date or earlier from refinancing, long term financings of the underlying properties, cash flows from the underlying properties or another capital event. Each Sponsored REIT Loan is secured by a mortgage on the underlying property and has a term of approximately two to three years.

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

Additional information about our Sponsored REIT Loans outstanding as of December 31, 2019, including a summary table of our Sponsored REIT Loans, is incorporated herein by reference to Note 3, “Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans”, in the Notes to Consolidated Financial Statements included in this report.

### Other Considerations

We generally pay the ordinary annual operating expenses of our properties from the rental revenue generated by the properties. For the years ended December 31, 2019 and 2018, respectively, the rental income exceeded the expenses for each individual property, with the exception of one property located in Minneapolis, Minnesota for the years ended December 31, 2019 and 2018 and one property located in Houston, Texas for the year ended December 31, 2018.

Our property located at 801 Marquette Avenue in Minneapolis, Minnesota (“801 Marquette Avenue”) had approximately 170,000 square feet of rentable space and became vacant in January 2016. On June 30, 2016, we commenced a redevelopment plan for the property and substantially completed the redevelopment in the second quarter of 2017. Redevelopment of 801 Marquette Avenue resulted in approximately 129,800 of net rentable square feet for the property. As of December 31, 2019, we have signed leases with two tenants that now occupy 48,000 square feet, or 37% of rentable square feet at the property. As a result, we had rental income of \$278,000 and operating expenses of \$319,000 during the three months ended December 31, 2019. We had rental income of \$750,000 and operating expenses of \$1,158,000 during the year ended December 31, 2019. We had rental income of \$71,000 and had operating expenses of \$302,000 during the year ended December 31, 2018.

The property located in Houston, Texas has approximately 157,000 square feet of rentable space and became substantially vacant on April 30, 2017 when two tenants vacated 155,000 square feet of space. The property signed leases that commenced in 2019 for approximately 105,000 square feet, or 66.9% of the square feet of the property. We had rental income of \$156,000 and had operating expenses of \$1,484,000 during the year ended December 31, 2018.

## Rental Income Commitments

Our commercial real estate operations include the leasing of office buildings subject to leases with terms greater than one year. The leases thereon expire at various dates through 2036. Approximate undiscounted cash flows of rental income from non-cancelable operating leases as of December 31, 2019 is:

<u>(in thousands)</u>	<u>Year ending December 31,</u>
2020	\$ 171,874
2021	169,399
2022	144,949
2023	129,900
2024	115,271
Thereafter (2025-2036)	360,408
	<u>\$ 1,091,801</u>

## Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019:

<u>Contractual Obligations</u>	<u>Payment due by period (in thousands)</u>						
	<u>Total</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>
BAML Revolver (1) (2)	\$ 3,049	\$ 1,500	\$ 1,500	\$ 49	\$ —	\$ —	\$ —
JPM Term Loan (3) (4)	159,999	5,221	154,778	—	—	—	—
BAML Term Loan (3) (5)	433,288	9,880	10,549	12,450	400,409	—	—
BMO Term Loan Tranche A (3) (6)	58,809	1,977	56,832	—	—	—	—
BMO Term Loan Tranche B (3) (6)	189,459	5,931	6,006	6,006	6,006	165,510	—
Series A Notes (3)	139,014	4,628	4,628	4,628	4,628	120,502	—
Series B Notes (3)	112,517	3,578	3,578	3,578	3,578	3,578	94,627
Operating Lease	2,075	421	429	438	447	340	—
<b>Total</b>	<u>\$ 1,098,210</u>	<u>\$ 33,136</u>	<u>\$ 238,300</u>	<u>\$ 27,149</u>	<u>\$ 415,068</u>	<u>\$ 289,930</u>	<u>\$ 94,627</u>

- (1) No principal was outstanding on the BAML Revolver as of December 31, 2019.
- (2) Amounts reflect a facility fee calculated as 0.0025% of the \$600 million available to be drawn.
- (3) Amounts include principal and interest payments.
- (4) Interest payments were estimated based on an interest rate swap with an effective interest rate of 3.69% per annum on \$100 million as of December 31, 2019, and the variable rate in effect as of December 31, 2019, which was at an annual rate of 3.06% on \$50 million as of December 31, 2019.
- (5) The BAML Term Loan has an interest rate swap with an effective interest rate of 2.47% per annum as of December 31, 2019, which was used for estimating interest. The swap expires on September 27, 2021. Interest payments between September 27, 2021 and maturity were estimated based on the variable rate in effect as of December 31, 2019, which was at an annual rate of 3.11%.
- (6) The BMO Term Loan has an interest rate swap with an effective interest rate of 3.57% per annum as of December 31, 2019, which was used for estimating interest. The swap expires on August 26, 2020. Interest payments between August 26, 2020 and maturity have an interest swap with an effective interest rate of 3.64% per annum as of December 31, 2019, which was used for estimating interest.

The operating lease in the table above consists of our lease of corporate office space, which commenced September 1, 2010, and was amended on October 25, 2016. The amended lease expires on September 30, 2024 and has one five year renewal option. The lease includes a base annual rent and additional rent for our share of taxes and operating costs.

In addition to the amounts in the table above, from time to time, we may provide Sponsored REIT Loans to our Sponsored REITs. As of December 31, 2019, we had one Sponsored REIT Loan with \$21 million principal amount outstanding. Additional information about our Sponsored REIT Loan outstanding as of December 31, 2019, including a summary table of our Sponsored REIT Loan, is incorporated herein by reference to Note 3, "Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans", in the Notes to Consolidated Financial Statements included in this report.

### Off-Balance Sheet Arrangements

#### Investments in Sponsored REITs

Previously we operated in the investment banking segment, and in December 2011, we discontinued those activities. The investment banking segment involved the structuring of real estate investments and broker/dealer services that included the organization of Sponsored REITs, the acquisition and development of real estate on behalf of Sponsored REITs and the raising of capital to equitize the Sponsored REITs through sale of preferred stock in private placements. On December 15, 2011, we announced that our broker/dealer subsidiary, FSP Investments LLC, would no longer sponsor the syndication of shares of preferred stock in newly-formed Sponsored REITs. On July 15, 2014, FSP Investments LLC withdrew its registration as a broker/dealer with FINRA.

The Sponsored REITs own real estate, purchases of which were financed through the private placement of equity in those entities, typically through syndication. These Sponsored REITs are operated in a manner intended to qualify as real estate investment trusts. We earned fees related to the sale of preferred stock in the Sponsored REITs in these syndications. The Sponsored REITs issued both common stock and preferred stock. The common stock is owned by FSP Corp. Generally the preferred stock is owned by unaffiliated investors, however, we held an interest in preferred shares of two Sponsored REITs, which were liquidated during 2018. In addition, directors and officers of FSP Corp., have from time to time invested in Sponsored REITs. Following consummation of the offerings, the preferred stockholders in each of the Sponsored REITs were entitled to 100% of the Sponsored REIT's cash distributions. Subsequent to the completion of the offering of preferred shares, except for the preferred stock we previously owned, we do not share in any of the Sponsored REIT's earnings, or any related dividend, and the common stock ownership interests have virtually no economic benefit or risk.

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

We previously acquired a preferred stock interest in three Sponsored REITs, including one that sold the property owned by it on September 24, 2018, one that sold the property owned by it on July 19, 2018 and one that sold the property owned by it on December 20, 2012 and each made a liquidating distribution to us; and one we acquired on May 15, 2008 by cash merger and another we acquired on April 30, 2006 by merger. As a result of our common stock interest and during the period we owned our preferred stock interests in the remaining two Sponsored REITs, we exercised influence over, but do not control these entities. These preferred share investments were accounted for using the equity method. Under the equity method of accounting our cost basis was adjusted by our share of the Sponsored REITs' operations and distributions received. We also agreed to vote our preferred shares in any matter presented to a vote by the stockholders of these Sponsored REITs in the same proportion as shares voted by other stockholders of the Sponsored REITs.

At December 31, 2019, 2018 and 2017, we held a common stock interest in 2, 3 and 6 Sponsored REITs, respectively, all of which were fully syndicated and in which we no longer share economic benefit or risk.

From time to time, we may provide Sponsored REIT Loans to our Sponsored REITs. As of December 31, 2019, we had one Sponsored REIT Loan with \$21 million principal amount outstanding. Additional information about our Sponsored REIT Loan outstanding as of December 31, 2019, including a summary table of our Sponsored REIT Loan, is incorporated herein by reference to Note 3, “Related Party Transactions and Investments in Non-Consolidated Entities - Management fees and interest income from loans”, in the Notes to Consolidated Financial Statements included in this report.

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

**Market Rate Risk**

We are exposed to changes in interest rates primarily from our floating rate borrowing arrangements. We use interest rate derivative instruments to manage exposure to interest rate changes. As of December 31, 2019 and December 31, 2018, if market rates on our outstanding borrowings under the BAML Revolver and the floating rate portion of the JPM Term Loan increased by 10% at maturity, or approximately 31 and 38 basis points, respectively, over the current variable rate, the increase in interest expense would decrease future earnings and cash flows by \$0.2 million and \$0.7 million annually, respectively. Based upon our credit rating, the interest rate on the BAML Revolver as of December 31, 2019 was LIBOR plus 120 basis points, or 2.96% per annum. Based upon our credit rating, the interest rate on the \$50 million portion of the JPM Term Loan that is not subject to interest rate swap transactions as of December 31, 2019 was the LIBOR-based rate plus 125 basis points, or 3.06% per annum. We do not believe that the interest rate risk on the BAML Revolver and the JPM Term Loan is material as of December 31, 2019.

Although the interest rates on the BMO Term Loan, the BAML Term Loan and the JPM Term Loan are variable, the Company fixed the base LIBOR interest rates on the BMO Term Loan and the BAML Term Loan, and the LIBOR-based rate on a \$100 million portion of the JPM Term Loan, by entering into interest rate swap agreements. On July 22, 2016, the Company fixed the interest rate for the period beginning on September 27, 2017 and ending on September 27, 2021 on the BAML Term Loan with multiple interest rate swap agreements (the “2017 Interest Rate Swap”). On August 26, 2013, the Company fixed the interest rate until August 26, 2020 on the BMO Term Loan with an interest rate swap agreement (the “2013 BMO Interest Rate Swap”). On March 7, 2019, the Company fixed the interest rate for the period beginning on March 29, 2019 and ending on November 30, 2021 for the notional value of \$100 million on the JPM Term Loan with interest rate swap agreements (the “2019 JPM Interest Rate Swap”). On February 20, 2019, the Company fixed the interest rate for the period beginning August 26, 2020 and ending January 31, 2024 on the BMO Term Loan with interest rate swap agreements (the “2019 BMO Interest Rate Swap”). Accordingly, based upon our credit rating, as of December 31, 2019, the interest rate on the BAML Term Loan was 2.47% per annum, the interest rate on the BMO Term Loan was 3.57% per annum, and the interest rate on \$100 million of the JPM Term Loan was 3.69% per annum. The fair value of these interest rate swaps are affected by changes in market interest rates. We believe that we have mitigated interest rate risk with respect to the BAML Term Loan through the 2017 Interest Rate Swap from September 27, 2017 until September 27, 2021. We believe that we have mitigated interest rate risk with respect to the BMO Term Loan through the 2013 BMO Interest Rate Swap and the 2019 BMO Interest Rate Swap until January 31, 2024. We believe that we have mitigated the interest rate risk on a \$100 million portion of the JPM Term Loan until November 30, 2021 with the 2019 JPM Interest Rate Swap. These interest rate swaps were our only derivative instruments as of December 31, 2019.

The table below lists our derivative instruments, which are hedging variable cash flows related to interest on our BAML Term Loan, BMO Term Loan and a portion of the JPM Term Loan as of December 31, 2019 (in thousands):

<u>(in thousands)</u>	<u>Notional Value</u>	<u>Strike Rate</u>	<u>Effective Date</u>	<u>Expiration Date</u>	<u>Fair Value</u>
2017 Interest Rate Swap	\$ 400,000	1.12 %	Sep-17	Sep-21	\$ 3,022
2013 BMO Interest Rate Swap	\$ 220,000	2.32 %	Aug-13	Aug-20	\$ (963)
2019 JPM Interest Rate Swap	\$ 100,000	2.44 %	Mar-19	Nov-21	\$ (1,634)
2019 BMO Interest Rate Swap (1)	\$ 220,000	2.39 %	Aug-20	Jan-24	\$ (5,107)

(1) The Notional Value will decrease to \$165 million on November 30, 2021.

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

The Company's derivatives are recorded at fair value in other assets and liabilities in the consolidated balance sheets, the effective portion of the derivatives' fair value is recorded to other comprehensive income in the consolidated statements of other comprehensive income (loss) and prior to January 1, 2019, the ineffective portion of the derivatives' fair value was recognized directly into earnings as Other in the consolidated statements of income.

The interest rate swaps effectively fix the interest rate on the BAML Term Loan and BMO Term Loan; however, prior to October 18, 2017, there was no floor on the variable interest rate of the swap whereas the BAML Term Loan and BMO Term Loan were subject to a zero percent floor. As a result there was a mismatch and the ineffective portion of the derivatives' changes in fair value were recognized directly into earnings. On October 18, 2017, the Company amended the BMO Term Loan and BAML Term Loan to, among other changes, provide that the deemed zero percent interest rate floor is not applicable to any loan where there is a corresponding interest rate swap contract in place.

During the nine months ended September 30, 2017, the Company recorded a \$0.2 million charge from hedge ineffectiveness in earnings, which is included in other in the consolidated statements of income. After giving effect to the October 18, 2017 amendments to the BAML Term Loan and the BMO Term Loan, the Company recorded a \$2.1 million expense to reverse the impact of hedge ineffectiveness previously recorded, which had been included in "other" in our consolidated statements of income.

The following table presents, as of December 31, 2019, our contractual variable rate borrowings under our BAML Revolver, which matures on January 12, 2022, under our JPM Term Loan, which matures on November 30, 2021, under our BAML Term Loan, which matures on January 12, 2023, under our BMO Term Loan Tranche A, which matures on November 30, 2021, under our BMO Term Loan Tranche B, which matures on January 31, 2024, under our Series A Notes, which mature on December 20, 2024, and under our Series B Notes, which mature on December 20,



2027. Under the BAML Revolver, we have the right to extend the initial maturity date with two additional six month extensions, or until January 12, 2023, upon payment of a fee and satisfaction of certain customary conditions.

	Payment due by period (in thousands)						
	Total	2020	2021	2022	2023	2024	Thereafter
BAML Revolver	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
JPM Term Loan	150,000	—	150,000	—	—	—	—
BAML Term Loan	400,000	—	—	—	400,000	—	—
BMO Term Loan Tranche A	55,000	—	55,000	—	—	—	—
BMO Term Loan Tranche B	165,000	—	—	—	—	165,000	—
Series A Notes	116,000	—	—	—	—	116,000	—
Series B Notes	84,000	—	—	—	—	—	84,000
Total	<u>\$ 970,000</u>	<u>\$ —</u>	<u>\$ 205,000</u>	<u>\$ —</u>	<u>\$ 400,000</u>	<u>\$ 281,000</u>	<u>\$ 84,000</u>

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

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

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

Not applicable.

## **Item 9A. Controls and Procedures**

### **Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2019, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

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

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

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework, 2013 framework.

Based on our assessment, management concluded that, as of December 31, 2019, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited our financial statements included elsewhere in this annual report on Form 10-K, has issued an attestation report on our internal control over financial reporting as of December 31, 2019. Please see page F-3.

### **Changes in Internal Control Over Financial Reporting**

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B. Other Information**

None.

### **PART III**

Certain information required by Part III of this Form 10-K will be contained in our definitive proxy statement pursuant to Regulation 14A (the “Proxy Statement”) which we plan to file not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and is incorporated herein by reference.

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The response to this item is contained under the caption “Information about our Executive Officers” in Part I hereof and in the Proxy Statement under the captions “CORPORATE GOVERNANCE”, “PROPOSAL 1 - ELECTION OF DIRECTORS” and, if applicable, “DELINQUENT SECTION 16(a) REPORTS” and is incorporated herein by reference.

Our board of directors has adopted a code of business conduct and ethics that applies to all of our executive officers, directors and employees. The code was approved by the audit committee of our board of directors and by the full board of directors. We have posted a current copy of our code under “Corporate Governance” in the “Investor Relations” section of our website at <http://www.fspreit.com>. To the extent permitted by applicable rules of the NYSE American, we intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the code of business conduct and ethics with respect to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website.

#### **Item 11. Executive Compensation**

The response to this item is contained in the Proxy Statement under the captions “COMPENSATION DISCUSSION AND ANALYSIS” and “DIRECTOR COMPENSATION AND STOCK OWNERSHIP GUIDELINES” and is incorporated herein by reference.

The “Compensation Committee Report” contained in the Proxy Statement shall not be deemed “soliciting material” or “filed” with the SEC or otherwise subject to the liabilities of Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended (the “Securities Act”) or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document filed under the Securities Act or the Exchange Act.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The response to this item is contained in the Proxy Statement under the captions “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” and “SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS” and is incorporated herein by reference.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The response to this item is contained in the Proxy Statement under the captions “PROPOSAL 1 - ELECTION OF DIRECTORS”, “CORPORATE GOVERNANCE” and “TRANSACTIONS WITH RELATED PERSONS” and is incorporated herein by reference.

#### **Item 14. Principal Accounting Fees and Services**

The response to this item is contained in the Proxy Statement under the caption “INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS FEES AND SERVICES” and is incorporated herein by reference.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules.**

(a) The following documents are filed as part of this report:

1. Financial Statements:

The Financial Statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedules:

The Financial Statement Schedules listed on the accompanying Index to Consolidated Financial Statements are filed as part of this Annual Report on Form 10-K.

Schedules other than those listed are omitted as they are not applicable or the required or equivalent information has been included in the financial statements or notes thereto.

3. Exhibits:

## EXHIBIT INDEX

Exhibit No.	Description
3.1 (1)	Articles of Incorporation, as amended.
3.2 (2)	Amended and Restated By-laws.
4.1*	Description of Securities Registered Under Section 12 of the Exchange Act
10.1+ (3)	2002 Stock Incentive Plan of FSP Corp.
10.2 (4)	Second Amended and Restated Credit Agreement, dated September 27, 2018, among FSP Corp., Bank of Montreal and the other parties thereto.
10.3 (5)	Second Amended and Restated Credit Agreement, dated October 29, 2014, among FSP Corp., Bank of America, N.A. and the other parties thereto.
10.4 (6)	First Amendment to Second Amended and Restated Credit Agreement, dated July 21, 2016, among FSP Corp., Bank of America, N.A. and the other parties thereto.
10.5 (7)	Second Amendment to Second Amended and Restated Credit Agreement, dated October 18, 2017, among FSP Corp., Bank of America, N.A., and the other parties thereto.
10.6 (8)	Amended and Restated Credit Agreement, dated August 2, 2018, among FSP Corp., JPMorgan Chase Bank, N.A. and the other parties thereto.
10.7 (9)	Note Purchase Agreement, dated October 24, 2017, among FSP Corp. and the other parties named therein as purchasers.
10.8+(10)	Form of Retention Agreement.
10.9+(11)	Change in Control Discretionary Plan.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP.
31.1*	Certification of FSP Corp.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of FSP Corp.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of FSP Corp.'s Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of FSP Corp.'s Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from FSP Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in iXBRL (inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Cash Flows; (iv) the Consolidated Statements of Other Comprehensive Income; and (v) the Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

- (1) Incorporated by reference to Exhibit 3.1 to FSP Corp.'s Quarterly Report on Form 10-Q filed on July 30, 2019 (File No. 001-32470).
  - (2) Incorporated by reference to Exhibit 3.1 to FSP Corp.'s Current Report on Form 8-K, filed on February 3, 2020 (File No. 001-32470).
  - (3) Incorporated by reference to Exhibit 10.1 to FSP Corp.'s Annual Report on Form 10-K, filed on March 29, 2002 (File No. 000-32615).
  - (4) Incorporated by reference to Exhibit 10.1 to FSP Corp.'s Current Report on Form 8-K, filed on September 27, 2018 (File No. 001-32470).
  - (5) Incorporated by reference to Exhibit 10.1 to FSP Corp.'s Current Report on Form 8-K, filed on October 29, 2014 (File No. 001-32470).
  - (6) Incorporated by reference to Exhibit 10.1 to FSP Corp.'s Current Report on Form 8-K, filed on July 27, 2016 (File No. 001-32470).
  - (7) Incorporated by reference to Exhibit 10.1 to FSP Corp.'s Current Report on Form 8-K, filed on October 24, 2017 (File No. 001-32470).
  - (8) Incorporated by reference to Exhibit 10.1 to FSP Corp.'s Current Report on Form 8-K, filed on August 2, 2018 (File No. 001-32470).
  - (9) Incorporated by reference to Exhibit 10.4 to FSP Corp.'s Current Report on Form 8-K, filed on October 24, 2017 (File No. 001-32470).
  - (10) Incorporated by reference to Exhibit 10.5 to FSP Corp.'s Annual Report on Form 10-K, filed on February 24, 2006 (File No. 001-32470).
  - (11) Incorporated by reference to Exhibit 99.2 to FSP Corp.'s Current Report on Form 8-K, filed on February 8, 2006 (File No. 001-32470).
- + Management contract or compensatory plan or arrangement filed as an Exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.
- \* Filed herewith.

Item 16. Form 10-K Summary

Not applicable.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf as of February 11, 2020 by the undersigned, thereunto duly authorized.

FRANKLIN STREET PROPERTIES CORP.

By: /s/ George J. Carter  
George J. Carter  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ George J. Carter</u> George J. Carter	Chief Executive Officer and Director (Principal Executive Officer)	February 11, 2020
<u>/s/ John G. Demeritt</u> John G. Demeritt	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	February 11, 2020
<u>/s/ John N. Burke</u> John Burke	Director	February 11, 2020
<u>/s/ Brian N. Hansen</u> Brian N. Hansen	Director	February 11, 2020
<u>/s/ Kenneth A. Hoxsie</u> Kenneth Hoxsie	Director	February 11, 2020
<u>/s/ Dennis J. McGillicuddy</u> Dennis J. McGillicuddy	Director	February 11, 2020
<u>/s/ Georgia Murray</u> Georgia Murray	Director	February 11, 2020
<u>/s/ Kathryn P. O'Neil</u> Kathryn P. O'Neil	Director	February 11, 2020



**Franklin Street Properties Corp.**  
**Index to Consolidated Financial Statements**

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<b>Consolidated Financial Statements:</b>	
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-5
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2019	F-7
Consolidated Statements of Other Comprehensive Income for each of the three years in the period ended December 31, 2019	F-8
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All other schedules for which a provision is made in the applicable accounting resolutions of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of Franklin Street Properties Corp.:

### **Opinion on Internal Control over Financial Reporting**

We have audited Franklin Street Properties Corp.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Franklin Street Properties Corp. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, and the related consolidated statements of income, other comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019 and the related notes and financial statement schedules listed in the Index at Item 15(a)(2) and our report dated February 11, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Item 9A of Franklin Street Properties Corp.'s Annual Report on Form 10-K under the heading Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Ernst & Young LLP

Boston, Massachusetts  
February 11, 2020

## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors of Franklin Street Properties Corp.:

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Franklin Street Properties Corp. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, other comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019 and the related notes and financial statement schedules listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 11, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### *Measurement of related party mortgage loan receivable*

**Description of the Matter** The Company's related party mortgage loan portfolio consisted of a loan totaling \$21 million as of December 31, 2019. The Company determined that no allowance for loan loss was required for this loan. As discussed in Note 2 to the consolidated financial statements, management evaluates whether a loss has been incurred based on expected performance, cash flow and the value of underlying real estate for secured lending.

Auditing the Company's estimate of the allowance for loan losses for a mortgage loan involved a high degree of subjectivity in evaluating management's assumptions of the valuation of underlying real estate for secured lending.

**How We Addressed the Matter in Our Audit** We tested the Company's controls over the allowance for loan loss process. This included controls over the identification of indicators of impairment and the valuation of real estate collateral for secured lending.

Our testing of the measurement of the related party mortgage loan receivable included, among other procedures, testing the completeness and accuracy of data used in the valuation of real estate collateral and, with the assistance of our valuation specialists, evaluating management's assumptions used in the valuation of the underlying real estate. For example, we compared the assumptions of expected performance of the underlying real estate to market data, performed a sensitivity analysis to evaluate the assumptions that were most significant to the estimate of value and recalculated management's estimate.

### *Impairment assessment of real estate assets*

**Description of the Matter** The Company's real estate assets, net totaled \$1.6 billion as of December 31, 2019. As described in Note 2 to the consolidated financial statements, the Company reviews its properties to determine if their carrying amounts will be recovered from future operating cash flows if certain indicators of impairment are identified.

Auditing the Company's impairment assessment involved a high degree of subjectivity as estimates underlying the determination of recoverability were based on assumptions affected by expected future market conditions and leasing activity. Assumptions included in the Company's recoverability assessment included the rental rates and future occupancy of the Company's real estate properties.

**How We Addressed the Matter in Our Audit** We tested the design and operating effectiveness of controls over the Company's impairment process. For example, we tested controls over management's review of important assumptions underlying projections used in the Company's recoverability assessment.

Our testing of the Company's impairment assessment included, among other procedures, evaluating the significant assumptions used to estimate future undiscounted cash flows used in the recoverability assessment. For example, we compared assumptions of future market conditions to current market data and performed a sensitivity analysis to evaluate the assumptions that were most significant to the estimate of undiscounted cash flows and recalculated management's estimate.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2003.

Boston, Massachusetts  
February 11, 2020

**Franklin Street Properties Corp.**  
**Consolidated Balance Sheets**

(in thousands)	December 31,	
	2019	2018
<b>Assets:</b>		
<b>Real estate assets:</b>		
Land	\$ 191,578	\$ 191,578
Buildings and improvements	1,924,664	1,857,935
Fixtures and equipment	11,665	8,839
	2,127,907	2,058,352
Less accumulated depreciation	490,697	432,579
Real estate assets, net	1,637,210	1,625,773
Acquired real estate leases, less accumulated amortization of \$60,749 and \$101,897, respectively		
	40,704	59,595
Cash, cash equivalents and restricted cash	9,790	11,177
Tenant rent receivables	3,851	3,938
Straight-line rent receivable	66,881	54,006
Prepaid expenses and other assets	7,246	10,400
Other assets: derivative asset	3,022	14,765
Related party mortgage loan receivable	21,000	70,660
Office computers and furniture, net of accumulated depreciation of \$1,362 and \$1,512, respectively	183	197
Deferred leasing commissions, net of accumulated amortization of \$28,114 and \$24,318, respectively	52,767	47,591
Total assets	\$ 1,842,654	\$ 1,898,102

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

**Franklin Street Properties Corp.**  
**Consolidated Balance Sheets**

(in thousands, except share and par value amounts)	December 31,	
	2019	2018
<b>Liabilities and Stockholders' Equity:</b>		
<b>Liabilities:</b>		
Bank note payable	\$ —	\$ 25,000
Term loans payable, less unamortized financing costs of \$4,267 and \$5,722, respectively	765,733	764,278
Series A & Series B Senior Notes, less unamortized financing costs of \$985 and \$1,150, respectively	199,015	198,850
Accounts payable and accrued expenses	66,658	59,183
Accrued compensation	3,400	3,043
Tenant security deposits	9,346	6,319
Lease liability	1,890	—
Other liabilities: derivative liabilities	7,704	—
Acquired unfavorable real estate leases, less accumulated amortization of \$4,676 and \$6,605, respectively	2,512	3,795
<b>Total liabilities</b>	<b>1,056,258</b>	<b>1,060,468</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock, \$.0001 par value, 20,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$.0001 par value, 180,000,000 shares authorized, 107,269,201 and 107,231,155 shares issued and outstanding, respectively	11	11
Additional paid-in capital	1,356,794	1,356,457
Accumulated other comprehensive income (loss)	(4,682)	14,765
Distributions in excess of accumulated earnings	(565,727)	(533,599)
<b>Total stockholders' equity</b>	<b>786,396</b>	<b>837,634</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,842,654</b>	<b>\$ 1,898,102</b>

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

**Franklin Street Properties Corp.**  
**Consolidated Statements of Operations**

(in thousands, except per share amounts)	For the Year Ended December 31,		
	2019	2018	2017
<b>Revenues:</b>			
Rental	\$ 265,527	\$ 263,777	\$ 267,265
Related party revenue:			
Management fees and interest income from loans	3,517	5,061	5,285
Other	21	32	38
Total revenues	<u>269,065</u>	<u>268,870</u>	<u>272,588</u>
<b>Expenses:</b>			
Real estate operating expenses	72,311	70,703	71,212
Real estate taxes and insurance	47,871	45,857	45,841
Depreciation and amortization	90,909	94,230	101,258
General and administrative	14,473	13,070	13,471
Interest	36,757	38,374	32,387
Total expenses	<u>262,321</u>	<u>262,234</u>	<u>264,169</u>
Gain (loss) on sale of properties	—	—	(18,481)
Other	—	—	(1,878)
Income (loss) before taxes on income and equity in income (loss) of non-consolidated REITs	6,744	6,636	(11,940)
Tax expense on income	269	360	400
Equity in income (loss) of non-consolidated REITs	—	6,793	(3,604)
Net income (loss)	<u>\$ 6,475</u>	<u>\$ 13,069</u>	<u>\$ (15,944)</u>
Weighted average number of shares outstanding, basic and diluted	<u>107,233</u>	<u>107,231</u>	<u>107,231</u>
Net income (loss) per share, basic and diluted	<u>\$ 0.06</u>	<u>\$ 0.12</u>	<u>\$ (0.15)</u>

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

**Franklin Street Properties Corp.**  
**Consolidated Statements of Other Comprehensive Income (Loss)**

(in thousands)	For the Year Ended December 31,		
	2019	2018	2017
Net income (loss)	\$ 6,475	\$ 13,069	\$ (15,944)
Other comprehensive income (loss):			
Unrealized gain (loss) on derivative financial instruments	(19,447)	2,599	6,688
Total other comprehensive income (loss)	(19,447)	2,599	6,688
Comprehensive income (loss)	\$ (12,972)	\$ 15,668	\$ (9,256)

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



**Franklin Street Properties Corp.**  
**Consolidated Statements of Stockholders' Equity**

(in thousands)	Common Stock		Additional Paid-In Capital	Accumulated other comprehensive income (loss)	Distributions in excess of accumulated earnings	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2016	107,231	\$ 11	\$ 1,356,457	\$ 5,478	\$ (399,902)	\$ 962,044
Comprehensive income (loss)	—	—	—	6,688	(15,944)	(9,256)
Distributions	—	—	—	—	(81,496)	(81,496)
Balance, December 31, 2017	107,231	11	1,356,457	12,166	(497,342)	871,292
Comprehensive income	—	—	—	2,599	13,069	15,668
Distributions	—	—	—	—	(49,326)	(49,326)
Balance, December 31, 2018	107,231	11	1,356,457	14,765	(533,599)	837,634
Comprehensive income (loss)	—	—	—	(19,447)	6,475	(12,972)
Shares issued for:						
Equity-based compensation	38	—	337	—	—	337
Distributions	—	—	—	—	(38,603)	(38,603)
Balance, December 31, 2019	107,269	\$ 11	\$ 1,356,794	\$ (4,682)	\$ (565,727)	\$ 786,396

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

**Franklin Street Properties Corp.**  
**Consolidated Statements of Cash Flows**

(in thousands)	For the Year Ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 6,475	\$ 13,069	\$ (15,944)
Adjustments to reconcile net income or loss to net cash provided by operating activities:			
Depreciation and amortization expense	93,787	97,171	103,743
Amortization of above and below market leases	(402)	(556)	(1,031)
Shares issued as compensation	337	—	—
Hedge ineffectiveness	—	—	1,878
Loss on sale of properties and properties held for sale	—	—	18,481
Equity in (income) loss of non-consolidated REITs	—	(6,793)	3,604
Increase (decrease) in allowance for doubtful accounts and write-off of accounts receivable	(71)	(50)	150
Changes in operating assets and liabilities:			
Tenant rent receivables	158	(765)	(160)
Straight-line rents	(8,876)	381	(1,767)
Lease acquisition costs	(3,999)	(1,193)	(2,052)
Prepaid expenses and other assets	2,313	(1,940)	(403)
Accounts payable and accrued expenses	3,910	(4,077)	3,870
Accrued compensation	357	(598)	(143)
Tenant security deposits	3,027	936	28
Payment of deferred leasing commissions	(15,101)	(15,383)	(14,309)
Net cash provided by operating activities	81,915	80,202	95,945
<b>Cash flows from investing activities:</b>			
Property improvements, fixtures and equipment	(70,746)	(51,057)	(54,187)
Office computers and furniture	—	—	(119)
Investment in non-consolidated REITs	—	74,931	—
Distributions in excess of earnings from non-consolidated REITs	—	710	1,396
Investment in related party mortgage loan receivable	(2,400)	—	—
Repayment of related party mortgage loan receivable	52,060	1,060	10,060
Proceeds received on sales of real estate assets	—	—	37,756
Proceeds received from liquidating trust	1,470	—	—
Net cash provided by (used in) investing activities	(19,616)	25,644	(5,094)
<b>Cash flows from financing activities:</b>			
Distributions to stockholders	(38,603)	(49,326)	(81,496)
Borrowings under bank note payable	45,000	38,000	75,000
Repayments of bank note payable	(70,000)	(91,000)	(277,000)
Borrowing of Series A & Series B Senior Notes	—	—	200,000
Deferred financing costs	(83)	(2,162)	(6,902)
Net cash used in financing activities	(63,686)	(104,488)	(90,398)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	(1,387)	1,358	453
<b>Cash, cash equivalents and restricted cash, beginning of year</b>	11,177	9,819	9,366
<b>Cash, cash equivalents and restricted cash, end of period</b>	\$ 9,790	\$ 11,177	\$ 9,819

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

**Franklin Street Properties Corp.**  
**Consolidated Statements of Cash Flows**

(in thousands)	<b>For the Year Ended December 31,</b>		
	2019	2018	2017
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for:			
Interest	\$ 34,470	\$ 35,885	\$ 29,969
Taxes on income	\$ 508	\$ 485	\$ 584
Non-cash investing and financing activities:			
Accrued costs for purchase of real estate assets	\$ 11,012	\$ 7,361	\$ 5,140

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

**Franklin Street Properties Corp.**  
**Notes to the Consolidated Financial Statements**

**1. Organization**

Franklin Street Properties Corp. (“FSP Corp.” or the “Company”), holds, directly and indirectly, 100% of the interest in FSP Investments LLC, FSP Property Management LLC, FSP Holdings LLC and FSP Protective TRS Corp. FSP Property Management LLC provides asset management and property management services. The Company also has a non-controlling common stock interest in two corporations organized to operate as real estate investment trusts (“REIT”). Collectively, the two REITs are referred to as the “Sponsored REITs”.

As of December 31, 2019, the Company owned and operated a portfolio of real estate consisting of 32 operating properties, three redevelopment properties and two managed Sponsored REITs and held one promissory note secured by a mortgage on real estate owned by a Sponsored REIT. From time-to-time, the Company may acquire real estate or make additional secured loans. The Company may also pursue, on a selective basis, the sale of its properties in order to take advantage of the value creation and demand for its properties, or for geographic or property specific reasons.

**2. Significant Accounting Policies**

*Basis of Presentation*

The accompanying consolidated financial statements include all of the accounts of the Company and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Estimates and Assumptions*

The Company prepares its financial statements and related notes in conformity with generally accepted accounting principles in the United States of America (“GAAP”). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the consolidated financial statements include the allowance for doubtful accounts, purchase price allocations, impairment considerations, useful lives of fixed assets and the valuation of derivatives.

*Investments in non-consolidated REITs*

As of December 31, 2019, the Company has a non-controlling common stock interest in two Sponsored REITs in which the Company no longer shares in economic benefit or risk. The Company had a non-controlling common stock interest in another Sponsored REIT and a non-controlling preferred stock interest in two additional Sponsored REITs, each of which were liquidated during 2019 or 2018. The Company exercised influence over, but did not control these entities and investments were accounted for using the equity method. Under the equity method of accounting, the Company's cost basis was adjusted by its share of the Sponsored REITs' earnings or losses.

The equity investments in Sponsored REITs were reviewed for impairment each reporting period. The Company recorded impairment charges when events or circumstances indicated a decline in the fair value below the carrying value of the investment had occurred and such decline was other-than-temporary.

On December 27, 2007, the Company purchased 965.75 preferred shares (approximately 43.7%) of a Sponsored REIT, FSP 303 East Wacker Drive Corp. (“East Wacker”), for \$82.8 million. The Company agreed to vote its shares in any matter presented to a vote by the stockholders of East Wacker in the same proportion as shares voted by other stockholders of East Wacker. The investment in East Wacker was accounted for under the equity method. On September 24, 2018, the property owned by East Wacker was sold and, thereafter, East Wacker declared and issued a liquidating distribution to its preferred shareholders.

On May 29, 2009, the Company purchased 175.5 preferred shares (approximately 27.0%) of a Sponsored REIT, FSP Grand Boulevard Corp. (“Grand Boulevard”), for \$15.0 million. The Company agreed to vote its shares in any matter presented to a vote by the stockholders of Grand Boulevard in the same proportion as shares voted by other stockholders of Grand Boulevard. The investment in Grand Boulevard was accounted for under the equity method. On July 19, 2018, the property owned by Grand Boulevard was sold and, thereafter, Grand Boulevard declared and issued a liquidating distribution for its preferred shareholders.

#### *Real Estate and Depreciation*

Real estate assets are stated at cost less accumulated depreciation. If the Company determines that impairment has occurred, the affected assets are reduced to their fair value.

The Company allocates the value of real estate acquired among land, buildings and identified intangible assets or liabilities. Costs related to land, building and improvements are capitalized. Typical capital items include new roofs, site improvements, various exterior building improvements and major interior renovations. Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period. Routine replacements and ordinary maintenance and repairs that do not extend the life of the asset are expensed as incurred. Funding for repairs and maintenance items typically is provided by cash flows from operating activities. Depreciation is computed using the straight-line method over the assets’ estimated useful lives as follows:

Category	Years
Commercial buildings	39
Building improvements	15 - 39
Fixtures and equipment	3 - 7

The Company reviews its properties to determine if their carrying amounts will be recovered from future operating cash flows if certain indicators of impairment are identified at those properties. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows are considered on an undiscounted basis in the analysis that the Company conducts to determine whether an asset has been impaired, the Company’s strategy of holding properties over the long term directly decreases the likelihood of recording an impairment loss. If the Company’s strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized. The Company did not recognize any impairment losses for the years ended December 31, 2019, 2018 or 2017.

#### *Acquired Real Estate Leases and Amortization*

Acquired real estate leases represent costs associated with acquiring an in-place lease (i.e., the market cost to execute a similar lease, including leasing commission, tenant improvements, legal, vacancy and other related costs) and the value relating to leases with rents above the market rate. Amortization is computed using the straight-line method over the term of the leases, which range from 40 months to 176 months. Amortization of these combined components was approximately \$18.9 million, \$26.9 million and \$39.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Amortization related to costs associated with acquiring an in-place lease is included in depreciation and amortization on the consolidated statements of income. Amortization related to leases with rents above the market rate is offset against the rental revenue in the consolidated statements of income. The estimated annual amortization expense for the five years and thereafter following December 31, 2019 is as follows:

<u>(in thousands)</u>	<u>December 31,</u>
2020	\$ 12,494
2021	9,000
2022	5,420
2023	4,288
2024	3,539
2025 and thereafter	5,963

#### *Acquired Unfavorable Real Estate Leases and Amortization*

The Company recorded the value of acquired unfavorable leases as a result three acquisitions in 2016 and one acquisition in 2015. Acquired unfavorable real estate leases represent the value relating to leases with rents below the market rate. Amortization is computed using the straight-line method over the term of the leases, which range from 42 months to 176 months. Amortization expense was approximately \$1.3 million, \$2.0 million and \$3.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Amortization related to leases with rents below the market rate is included with rental revenue in the consolidated statements of income. The estimated annual amortization for the five years and thereafter following December 31, 2019 is as follows:

<u>(in thousands)</u>	<u>December 31,</u>
2020	\$ 920
2021	597
2022	323
2023	218
2024	144
2025 and thereafter	310

#### *Asset Held For Sale*

Classification of a property as held for sale typically occurs upon the execution of a purchase and sale agreement and belief by management that the sale or disposition is probable of occurrence within one year. Upon determining that a property was held for sale, the Company discontinues depreciating the property and reflects the property in its consolidated balance sheet at the lower of its carrying amount or fair value less the cost to sell. The Company presents the property held for sale on its consolidated balance sheet as "Asset held for sale". The Company reports the results of operations of its properties sold or held for sale in its consolidated statements of income through the date of sale.

#### *Cash and Cash Equivalents*

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows.

<u>(in thousands)</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Cash and cash equivalents	\$ 9,790	\$ 11,177
Restricted cash	—	—
Total cash, cash equivalents and restricted cash	<u>\$ 9,790</u>	<u>\$ 11,177</u>

### *Restricted Cash*

Restricted cash consists of tenant security deposits, which are required by law in some states or by contractual agreement to be kept in a segregated account, and escrows arising from property sales. Tenant security deposits are refunded when tenants vacate, provided that the tenant has not damaged the property.

Cash held in escrow is paid when the related issue is resolved. Restricted cash also may include funds segregated for specific tenant improvements per lease agreements.

### *Tenant Rent Receivables*

Tenant rent receivables are expected to be collected within one year. The Company provides an allowance for doubtful accounts based on collectability. Lessors recognize the effect of a change in their assessment of whether the collectability of operating lease receivables are probable as an adjustment to lease income rather than bad debt expense.

### *Related Party Mortgage Loan Receivable*

Management monitors and evaluates the secured loans compared to the expected performance, cash flow and value of the underlying real estate and has not experienced a loss on these loans to date.

### *Concentration of Credit Risks*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash investments, derivatives and accounts receivable. The Company maintains its cash balances principally in two banks which the Company believes to be creditworthy. The Company periodically assesses the financial condition of the banks and believes that the risk of loss is minimal. Cash balances held with various financial institutions frequently exceed the insurance limit of \$250,000 provided by the Federal Deposit Insurance Corporation. The derivatives that the Company has are from two interest rate swap agreements that are discussed in Note 5. The Company performs ongoing credit evaluations of its tenants and requires certain tenants to provide security deposits or letters of credit. Though these security deposits and letters of credit are insufficient to meet the total value of a tenant's lease obligation, they are a measure of good faith and a source of funds to offset the economic costs associated with lost rent and the costs associated with re-tenanting the space. The Company has no single tenant which accounts for more than 10% of its annualized rent.

### *Financial Instruments*

The Company estimates that the carrying values of cash and cash equivalents, restricted cash, receivables, prepaid expenses, accounts payable and accrued expenses, accrued compensation, and tenant security deposits approximate their fair values based on their short-term maturity and the bank note and term loans payable approximate their fair values as they bear interest at variable interest rates.

### *Straight-line Rent Receivable*

Certain leases provide for fixed rent increases over the term of the lease. Rental revenue is recognized on a straight-line basis over the related lease term; however, billings by the Company are based on the lease agreements. Straight-line rent receivable, which is the cumulative revenue recognized in excess of amounts billed by the Company, was \$66.9 million and \$54.0 million at December 31, 2019 and 2018, respectively. The Company provides an allowance for doubtful accounts based on collectability. Lessors recognize the effect of a change in their assessment of whether the collectability of operating lease receivables are probable as an adjustment to lease income rather than bad debt expense. The reserve balance was not changed during 2019, 2018 or 2017, based on such assessment.

### *Deferred Leasing Commissions*

Deferred leasing commissions represent direct and incremental external leasing costs incurred in the leasing of commercial space. These costs are capitalized and are amortized on a straight-line basis over the terms of the related lease agreements. Amortization expense was approximately \$9.9 million, \$8.5 million and \$6.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The estimated annual amortization for the five years and thereafter following December 31, 2019 is as follows:

<u>(in thousands)</u>	<u>December 31,</u>
2020	\$ 9,082
2021	8,584
2022	7,372
2023	6,467
2024	5,402
2025 and thereafter	15,860

### *Common Share Repurchases*

The Company recognizes the gross cost of the common shares it repurchases as a reduction in stockholders' equity using the treasury stock method. Maryland law does not recognize a separate treasury stock account but provides that shares repurchased are classified as authorized but unissued shares. Accordingly, the Company reduces common stock for the par value and the excess of the purchase price over the par value is a reduction to additional paid-in capital.

### *Revenue Recognition*

*Rental Revenue* - The Company has retained substantially all of the risks and benefits of ownership of the Company's commercial properties and accounts for its leases as operating leases. Rental revenue includes income from leases, certain reimbursable expenses, straight-line rent adjustments and other income associated with renting the property. Rental income from leases, which includes rent concessions (including free rent and other lease inducements) and scheduled increases in rental rates during the lease term, is recognized on a straight-line basis. The Company does not have any significant percentage rent arrangements with its commercial property tenants. Reimbursable expenses are included in rental income in the period earned. A summary of rental revenue is shown in the following table:

<u>(in thousands)</u>	<u>Year Ended</u> <u>December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Income from leases	\$ 191,828	\$ 202,127	\$ 205,690
Reimbursable expenses	64,421	61,475	58,777
Straight-line rent adjustment	8,876	(381)	1,767
Amortization of favorable and unfavorable leases	402	556	1,031
	<u>\$ 265,527</u>	<u>\$ 263,777</u>	<u>\$ 267,265</u>

*Related Party and Other Revenue* - Property and asset management fees, interest income on loans and other income are recognized when the related services are performed and the earnings process is complete.

### *Segment Reporting*

The Company is a REIT focused on real estate investments primarily in the office market and currently operates in only one segment: real estate operations.



### *Income Taxes*

Taxes on income for the years ended December 31, 2019, 2018 and 2017 represent taxes incurred by FSP Protective TRS Corp, which is a taxable REIT subsidiary, and the State of Texas franchise tax applicable to FSP Corp., which is classified as an income tax for reporting purposes.

### *Net Income Per Share*

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into shares. There were no potential dilutive shares outstanding at December 31, 2019, 2018, and 2017. The denominator used for calculating basic and diluted net income per share was 107,233,000, 107,231,000, and 107,231,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

### *Derivative Instruments*

The Company recognizes derivatives on the consolidated balance sheets 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 consolidated balance sheets as either an asset or liability. To the extent hedges are effective, a corresponding amount, adjusted for swap payments, was 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 recognized in other comprehensive income ("OCI") and reclassified into the income statement. The Company reviews the effectiveness of each hedging transaction, which involves estimating future cash flows, at least quarterly. 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. The Company currently has no fair value hedges outstanding. Fair values of derivatives are subject to significant variability based on changes in interest rates and counterparty credit risk. The results of such variability could be a significant increase or decrease in the Company's derivative assets, derivative liabilities, book equity, and/or earnings.

### *Fair Value Measurements*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There is also an established fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. Financial assets and liabilities recorded on the consolidated balance sheets at fair value are categorized based on the inputs to the valuation techniques as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity or information. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability including credit risk, which was not significant to the overall value.

These inputs (See Note 5) were considered and applied to the Company's derivative, and Level 2 inputs were used to value the interest rate swap.

### *Subsequent Events*

In preparing these consolidated financial statements the Company evaluated events that occurred through the date of issuance of these financial statements for potential recognition or disclosure.

### *Recent Accounting Standards*

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases ("ASU 2016-02"); in July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases and ASU No. 2018-11, Leases (Topic 842): Targeted Improvements ("ASU 2018-11"); and in December 2018, the FASB issued ASU No. 2018-20 Leases (Topic 842), Narrow-Scope Improvements for Lessors. ASU 2016-02 requires lessees to establish a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term on their balance sheets. Lessees will continue to recognize lease expenses on their income statements in a manner similar to previous accounting. The guidance also eliminates current real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. This new standard is effective for annual periods beginning after December 15, 2018, and interim periods thereafter with early adoption permitted. The Company adopted this standard on January 1, 2019 and applied the package of practical expedients that allows an entity to not reassess (i) whether any expired or existing contracts are or contain leases, (ii) lease classification for any expired or existing leases and (iii) initial direct costs for any expired or existing leases. Additionally, the Company's leases met the criteria in ASU 2018-11 to not separate non-lease components from the related lease component, therefore the accounting for these leases remained largely unchanged from the previous standard. The Company applied the optional transition method in ASU 2018-11, which allows entities to initially apply the new lease standard at the adoption date. The Company recorded a right-of-use asset of \$2.1 million and a lease liability of \$2.2 million upon adoption of this standard. The presentation and disclosure that is required to be presented under the new lease standard is provided in Note 8.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires that entities use a new forward looking "expected loss" model that generally will result in the earlier recognition of allowance for credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company's Sponsored REIT Loan (as defined in Note 3 below) receivables are within the scope of this standard. The Company's receivables associated with its real estate operating leases are not within the scope of this standard. The Company is currently assessing the potential impact that the adoption of ASU 2016-13 may have on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"), which amends and simplifies existing guidance in order to allow companies to more accurately present the economic effects of risk management activities in the financial statements. The amendment also eases the application of hedge accounting in certain situations, including eliminating the requirement to separately measure and report hedge ineffectiveness for cash flow hedges. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, and earlier adoption is permitted. The Company adopted this new standard in the first quarter of 2019 using the modified retrospective method, which requires the Company to account for ASU 2017-12 as of the date of adoption with any retrospective adjustments applicable to prior periods included as a cumulative-effect adjustment to accumulated other comprehensive loss and retained earnings. No adjustment was necessary to account for the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated balance sheet as of the date of adoption because there was no cumulative ineffectiveness that had been recorded on the Company's existing interest rate swaps as of December 31, 2018, and all trades were highly effective. The amended presentation and disclosure guidance which is required to be presented prospectively under this new standard is provided in Note 5.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). The ASU is intended to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 is effective for all entities for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. This ASU amends existing fair value measurement disclosure requirements by adding, changing, or removing certain disclosures. ASU 2018-13 will be effective for the Company as of January 1, 2020, and earlier adoption is permitted. The Company is currently assessing the potential impact that the adoption of ASU 2018-13 may have on its consolidated financial statements.

In April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topics 326, Financial Instruments - Credit Losses, Topic 815 Derivatives and Hedging and Topic 825, Financial Instruments (“ASU 2019-04”). The ASU clarifies areas of guidance related to the recently issued standards on credit losses (Topic 326), derivatives and hedging (Topic 815), and recognition and measurement of financial instruments (Topic 825). The new guidance is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company is currently assessing the potential impact that the adoption of ASU 2019-04 may have on its consolidated financial statements.

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

#### *Investment in Sponsored REITs*

The Company held a common stock interest in 2, 3, and 6 Sponsored REITs at December 31, 2019, 2018 and 2017, respectively. The Company held a non-controlling preferred stock investment in two Sponsored REITs, FSP 303 East Wacker Drive Corp. (“East Wacker”) and FSP Grand Boulevard Corp. (“Grand Boulevard”), each of which were liquidated during the three months ended September 30, 2018.

In December 2007, the Company purchased 965.75 preferred shares or 43.7% of the outstanding preferred shares of East Wacker. On September 24, 2018, the property owned by East Wacker was sold and, thereafter, East Wacker declared and issued a liquidating distribution for its preferred shareholders, from which the Company was entitled to \$70.0 million. On September 27, 2018, the Company received \$69.0 million in an initial cash distribution, and on April 3, 2019, the Company received a \$1 million distribution. As a result of the sale, the Company recognized a gain on liquidation of \$7.1 million.

In May 2009, the Company purchased 175.5 preferred shares or 27.0% of the outstanding preferred shares of Grand Boulevard. On July 19, 2018, the property owned by Grand Boulevard was sold and, thereafter, Grand Boulevard declared and issued a liquidating distribution for its preferred shareholders, from which the Company was entitled to \$6.2 million. On August 17, 2018, the Company received \$5.9 million in an initial cash distribution, and on February 2, 2019, the Company received a \$0.2 million distribution. As a result of the sale, the Company recognized a loss on liquidation of \$0.1 million. As of December 31, 2019, the Company held a beneficial interest in the Grand Boulevard liquidating trust in the amount of \$0.1 million, which is included in other assets in the accompanying consolidated balance sheet as of such date.

Equity in income (loss) of investments in non-consolidated REITs were derived from the Company’s share of income or loss in the operations of those entities and includes gain or loss on liquidation. The Company exercised influence over, but did not control these entities, and investments were accounted for using the equity method.

During the year ended December 31, 2019 a property owned by a Sponsored REIT, FSP Energy Tower I Corp. (“Energy Tower”), was sold and, thereafter, liquidating distributions for its preferred shareholders were declared and issued. The Company held a mortgage loan and secured revolving line of credit with this entity, which were secured by the property owned by Energy Tower. The loans with Energy Tower in the aggregate principal amount of \$51.0 million were repaid by the proceeds of the sale.

During the year ended December 31, 2018, a property owned by a Sponsored REIT, FSP Centre Pointe V Corp., was sold and, thereafter, liquidating distributions for its preferred shareholders were declared and issued.

During the year ended December 31, 2017, a property owned by one Sponsored REIT was sold and, thereafter, liquidating distributions for its preferred shareholders were declared and issued. The Company held a mortgage loan with this entity, which was secured by the property owned by FSP 1441 Main Street Corp. (“1441 Main”). The loan with 1441 Main in the principal amount of \$9.0 million was repaid by the proceeds of the sale.

*Equity in income (loss) of investment in non-consolidated REITs:*

The following table includes equity in income (loss) of investments in non-consolidated REITs:

<u>(in thousands)</u>	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Equity in income (loss) of East Wacker	\$ 7,209	\$ (428)
Equity in loss of Grand Boulevard	(107)	(657)
Impairment charge	(309)	(2,519)
Total	<u>\$ 6,793</u>	<u>\$ (3,604)</u>

Equity in income (loss) of East Wacker was derived from the Company’s preferred stock investment in the entity. In December 2007, the Company purchased 965.75 preferred shares or 43.7% of the outstanding preferred shares, of East Wacker. On September 24, 2018, the property owned by East Wacker was sold at a gain, which is included in equity in income (loss) of non-consolidated REITs on the consolidated statements of income.

Equity in loss of Grand Boulevard is derived from the Company’s preferred stock investment in the entity. In May 2009, the Company purchased 175.5 preferred shares or 27.0% of the outstanding preferred shares of Grand Boulevard. On July 19, 2018, the property owned by Grand Boulevard was sold at a loss, which is included in equity in income (loss) of non-consolidated REITs on the consolidated statements of income.

At June 30, 2018 and December 31, 2017, the Company recognized impairment charges of \$0.3 million and \$2.5 million, respectively, which represented the other-than-temporary decline in the fair value below the carrying value of one of the Company’s investments in non-consolidated REITs. The Company estimated the fair value of its equity investment by estimating the fair value of the property, less estimated costs to sell using a purchase and sale agreement to purchase the property made by third parties (Level 3 inputs, as there is no active market).

The following table includes distributions received from non-consolidated REITs:

<u>(in thousands)</u>	<u>Year Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Distributions from East Wacker	\$ 657	\$ 1,289
Distributions from Grand Boulevard	53	107
	<u>\$ 710</u>	<u>\$ 1,396</u>

*Non-consolidated REITs*

As of December 31, 2019, the Company has a non-controlling common stock interest in two Sponsored REITs in which the Company no longer shares in economic benefit or risk. The balance sheet data below for 2018 includes the three Sponsored REITs the Company held an interest in as of December 31, 2018. The operating data below for 2018 includes the operations of the six Sponsored REITs the Company held an interest in during the year ended December 31, 2018. The operating data below for 2017 includes the operations of the seven Sponsored REITs the Company held an interest in during the year ended December 31, 2017.

Summarized financial information for the Sponsored REITs is as follows:

<u>(in thousands)</u>	<u>December 31,</u> <u>2018</u>	
<b><u>Balance Sheet Data (unaudited):</u></b>		
Real estate, net	\$	97,034
Other assets		18,532
Total liabilities		<u>(75,382)</u>
Shareholders' equity	\$	<u>40,184</u>
	<u>For the Year Ended</u> <u>December 31,</u>	
<u>(in thousands)</u>	<u>2018</u>	<u>2017</u>
<b><u>Operating Data (unaudited):</u></b>		
Rental revenues	\$ 40,382	\$ 53,249
Other revenues	1	7
Operating and maintenance expenses	(20,584)	(27,495)
Depreciation and amortization	(13,077)	(18,395)
Interest expense	(6,869)	(8,281)
Gain (loss) on sale	17,095	(702)
Net income (loss)	<u>\$ 16,948</u>	<u>\$ (1,617)</u>

*Management fees and interest income from loans:*

Asset management fees range from 1% to 5% of collected rents, and the applicable contracts are cancelable with 30 day notice. Asset management fee income from non-consolidated entities amounted to approximately \$0.2 million, \$0.5 million and \$0.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

From time to time the Company may make secured loans ("Sponsored REIT Loans") to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. The Company reviews Sponsored REIT loans for impairment and potential losses each reporting period. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts recorded on the balance sheet. The Company regularly evaluates the extent and impact of any credit deterioration that could affect performance and the value of the secured property, as well as the financial and operating capability of the borrower. A property's operating results and existing cash balances are considered and used to assess whether cash flows from operations are sufficient to cover the current and future operating and debt service requirements. The Company also evaluates the borrower's competency in managing and operating the secured property and considers the overall economic environment, real estate sector and geographic sub-market in which the secured property is located. The Company applies normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment. None of the Sponsored REIT loans have been impaired.

The Company anticipates that each Sponsored REIT Loan will be repaid at maturity or earlier from refinancing, long term financings of the underlying properties, cash flows from the underlying properties or some other capital event. Each Sponsored REIT Loan is secured by a mortgage on the underlying property and has a term of approximately one to three years.

The following is a summary of the Sponsored REIT Loan outstanding as of December 31, 2019:

(dollars in thousands, except footnotes) Sponsored REIT	Location	Maturity Date	Maximum Amount of Loan	Amount Outstanding 31-Dec-19	Interest Rate at 31-Dec-19
<b>Mortgage loan secured by property</b>					
FSP Monument Circle LLC (1)	Indianapolis, IN	6-Dec-20	21,000	21,000	7.19 %
			\$ 21,000	\$ 21,000	

(1) This mortgage loan includes an origination fee of \$164,000 and an exit fee of \$38,000 when repaid by the borrower.

The Company recognized interest income and fees from the Sponsored REIT Loans of approximately \$3.3 million, \$4.6 million and \$4.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

#### 4. Bank Note Payable, Term Note Payable and Private Placements

##### JPM Term Loan

On August 2, 2018, the Company entered into an Amended and Restated Credit Agreement with JPMorgan Chase Bank, N.A., as administrative agent and lender (“JPMorgan”), and the other lending institutions party thereto (the “JPM Credit Agreement”), which provides a single unsecured bridge loan in the aggregate principal amount of \$150 million (the “JPM Term Loan”) that remains fully advanced and outstanding. The JPM Term Loan matures on November 30, 2021. The JPM Term Loan was previously evidenced by a Credit Agreement, dated November 30, 2016, among the Company, JPMorgan, as administrative agent and lender, and the other lending institutions party thereto, as amended by a First Amendment, dated October 18, 2017.

The JPM Term Loan bears interest at either (i) a number of basis points over the LIBOR-based rate depending on the Company’s credit rating (125.0 basis points over the LIBOR-based rate at December 31, 2019) or (ii) a number of basis points over the base rate depending on the Company’s credit rating (25.0 basis points over the base rate at December 31, 2019).

The margin over the LIBOR-based rate or base rate is determined based on the Company’s credit rating pursuant to the following grid:

LEVEL	CREDIT RATING	LIBOR-BASED	
		RATE MARGIN	BASE RATE MARGIN
I	A- /A3 (or higher)	85.0 bps	— bps
II	BBB+ /Baa1	90.0 bps	— bps
III	BBB /Baa2	100.0 bps	— bps
IV	BBB- /Baa3	125.0 bps	25.0 bps
V	<BBB-/Baa3	165.0 bps	65.0 bps

For purposes of the JPM Term Loan, base rate means, for any day, a fluctuating rate per annum equal to the greatest of: (i) JPMorgan Chase Bank, N.A.’s prime rate in effect on such day, (ii) the greater of the Federal Funds Rate or the overnight bank funding rate in effect on such day, plus 0.50% (but no less than zero), and (iii) the one month Adjusted LIBOR based rate for a such day plus 1.00%. For purposes of the JPM Term Loan, the LIBOR-based rate means, for any interest period, the LIBOR rate for a period equal in length to the applicable interest period multiplied by the statutory reserve rate. As of December 31, 2019, the Company’s credit rating from Moody’s Investors Service was Baa3.

Although the interest rate on the JPM Term Loan is variable under the JPM Credit Agreement, the Company fixed the LIBOR-based rate on a portion of the JPM Term Loan by entering into interest rate swap transactions. On March 7, 2019, the Company entered into ISDA Master Agreements with various financial institutions to hedge a \$100 million

portion of the future LIBOR-based rate risk under the JPM Credit Agreement. Effective March 29, 2019, the Company fixed the LIBOR-based rate at 2.44% per annum on a \$100 million portion of the JPM Term Loan until November 30, 2021. Accordingly, based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on a \$100 million portion of the JPM Term Loan was 3.69% per annum.

Based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on the unhedged \$50 million portion of the JPM Term Loan was 3.06% per annum. The weighted average interest rate on the unhedged \$50 million portion of the JPM Term Loan during the year ended December 31, 2019 was approximately 3.54% per annum. The weighted average interest rate on the JPM Term Loan during the year ended December 31, 2018 was approximately 3.33% per annum.

The JPM Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The JPM Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a minimum fixed charge coverage ratio, a maximum secured leverage ratio, a maximum leverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The JPM Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the JPM Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the JPM Credit Agreement immediately due and payable, and enforce any and all rights of the lenders or administrative agent under the JPM Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the JPM Term Loan financial covenants as of December 31, 2019.

#### BMO Term Loan

On September 27, 2018, the Company entered into a Second Amended and Restated Credit Agreement with the lending institutions party thereto and Bank of Montreal ("BMO"), as administrative agent (the "BMO Credit Agreement"). The BMO Credit Agreement provides for a single, unsecured term loan borrowing in the amount of \$220 million (the "BMO Term Loan") that remains fully advanced and outstanding. The BMO Term Loan consists of a \$55 million tranche A term loan and a \$165 million tranche B term loan. The tranche A term loan matures on November 30, 2021 and the tranche B term loan matures on January 31, 2024. The BMO Credit Agreement also includes an accordion feature that allows up to \$100 million of additional loans, subject to receipt of lender commitments and satisfaction of certain customary conditions. The BMO Term Loan was previously evidenced by an Amended and Restated Credit Agreement, dated October 29, 2014, among the Company, BMO, as administrative agent and lender, and the other lending institutions party thereto, as amended by a First Amendment, dated July 21, 2016, and a Second Amendment, dated October 18, 2017.

The BMO Term Loan bears interest at either (i) a number of basis points over LIBOR depending on the Company's credit rating (125 basis points over LIBOR at December 31, 2019) or (ii) a number of basis points over the base rate depending on the Company's credit rating (25 basis points over the base rate at December 31, 2019). The margin over LIBOR rate or base rate is determined based on the Company's credit rating pursuant to the following grid:

Level	Credit Rating	LIBOR Rate Margin	Base Rate Margin
I	A- /A3 (or higher)	85.0 bps	— bps
II	BBB+ /Baa1	90.0 bps	— bps
III	BBB /Baa2	100.0 bps	— bps
IV	BBB- /Baa3	125.0 bps	25.0 bps
V	<BBB- /Baa3	165.0 bps	65.0 bps

For purposes of the BMO Term Loan, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 0.50%, and (iii) the one month

LIBOR based rate for such day plus 1.00%. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Although the interest rate on the BMO Term Loan is variable under the BMO Credit Agreement, the Company fixed the base LIBOR interest rate by entering into interest rate swap transactions. On August 26, 2013, the Company entered into an ISDA Master Agreement with Bank of Montreal that fixed the base LIBOR interest rate on the BMO Term Loan at 2.32% per annum until August 26, 2020. On February 20, 2019, the Company entered into ISDA Master Agreements with a group of banks that fixed the base LIBOR interest rate on the BMO Term Loan at 2.39% per annum for the period beginning on August 26, 2020 and ending January 31, 2024. Accordingly, based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on the BMO Term Loan was 3.57% per annum.

The BMO Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BMO Credit Agreement also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The BMO Credit Agreement provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the BMO Credit Agreement). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the BMO Credit Agreement immediately due and payable, terminate the lenders' commitments to make loans under the BMO Credit Agreement, and enforce any and all rights of the lenders or administrative agent under the BMO Credit Agreement and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the BMO Term Loan financial covenants as of December 31, 2019.

#### BAML Credit Facility

On July 21, 2016, the Company entered into a First Amendment (the "BAML First Amendment"), and on October 18, 2017, the Company entered into a Second Amendment (the "BAML Second Amendment"), to the Second Amended and Restated Credit Agreement dated October 29, 2014 among the Company, the lending institutions party thereto and Bank of America, N.A., as administrative agent, L/C Issuer and Swing Line Lender (as amended by the BAML First Amendment and the BAML Second Amendment, the "BAML Credit Facility") that continued an existing unsecured revolving line of credit (the "BAML Revolver") and extended the maturity of a term loan (the "BAML Term Loan").

#### BAML Revolver Highlights

- The BAML Revolver is for borrowings, at the Company's election, of up to \$600 million. Borrowings made pursuant to the BAML Revolver may be revolving loans, swing line loans or letters of credit, the combined sum of which may not exceed \$600 million outstanding at any time.
- Borrowings made pursuant to the BAML Revolver may be borrowed, repaid and reborrowed from time to time until the initial maturity date of January 12, 2022. The Company has the right to extend the maturity date of the BAML Revolver by two additional six month periods, or until January 12, 2023, upon payment of a fee and satisfaction of certain customary conditions.
- The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity applicable to the BAML Revolver and/or the BAML Term Loan subject to receipt of lender commitments and satisfaction of certain customary conditions.

As of December 31, 2019, there were no borrowings outstanding under the BAML Revolver. The BAML Revolver bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.20% over LIBOR at December 31, 2019) or (ii) a margin over the base rate depending on the Company's credit rating (0.20% over the base rate at December 31, 2019). The BAML Credit Facility also obligates the Company to pay an annual facility fee in an amount that is also based on the Company's credit rating. The facility fee is assessed against the total amount of the



BAML Revolver, or \$600 million (0.25% at December 31, 2019). The amount of any applicable facility fee, and the margin over LIBOR rate or base rate is determined based on the Company's credit rating pursuant to the following grid:

Level	Credit Rating	LIBOR Rate Margin	Facility Fee	Base Rate Margin
I	A- /A3 (or higher)	0.825 %	0.125 %	0.000 %
II	BBB+ /Baa1	0.875 %	0.150 %	0.000 %
III	BBB /Baa2	1.000 %	0.200 %	0.000 %
IV	BBB- /Baa3	1.200 %	0.250 %	0.200 %
V	<BBB-/Baa3	1.550 %	0.300 %	0.550 %

For purposes of the BAML Credit Facility, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 0.50%, and (iii) the one month LIBOR based rate for such day plus 1.00%. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Based upon the Company's credit rating, as of December 31, 2019, the interest rate on the BAML Revolver was 2.96% per annum. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the year ended December 31, 2019 was approximately 3.67% per annum.

As of December 31, 2018, there were borrowings of \$25 million outstanding under the BAML Revolver at an interest rate of 3.63% per annum. The weighted average interest rate on all amounts outstanding on the BAML Revolver during the year ended December 31, 2018 was approximately 3.09% per annum.

#### BAML Term Loan Highlights

- The BAML Term Loan is for \$400 million.
- The BAML Term Loan matures on January 12, 2023.
- The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to \$500 million of additional borrowing capacity applicable to the BAML Revolver and/or the BAML Term Loan subject to receipt of lender commitments and satisfaction of certain customary conditions.
- On September 27, 2012, the Company drew down the entire \$400 million under the BAML Term Loan and such amount remains fully advanced and outstanding under the BAML Term Loan.

The BAML Term Loan bears interest at either (i) a margin over LIBOR depending on the Company's credit rating (1.35% over LIBOR at December 31, 2019) or (ii) a margin over the base rate depending on the Company's credit rating (0.35% over the base rate at December 31, 2019). The margin over LIBOR rate or base rate is determined based on the Company's credit rating pursuant to the following grid:

Level	Credit Rating	LIBOR Rate Margin	Base Rate Margin
I	A- /A3 (or higher)	0.900 %	0.000 %
II	BBB+ /Baa1	0.950 %	0.000 %
III	BBB /Baa2	1.100 %	0.100 %
IV	BBB- /Baa3	1.350 %	0.350 %
V	<BBB-/Baa3	1.750 %	0.750 %

For purposes of the BAML Credit Facility, base rate means, for any day, a fluctuating rate per annum equal to the highest of: (i) the bank's prime rate for such day, (ii) the Federal Funds Rate for such day, plus 0.50%, and (iii) the one month LIBOR based rate for such day plus 1.00%. As of December 31, 2019, the Company's credit rating from Moody's Investors Service was Baa3.

Although the interest rate on the BAML Credit Facility is variable, the Company fixed the base LIBOR interest rate on the BAML Term Loan by entering into interest rate swap transactions. On July 22, 2016, the Company entered into

ISDA Master Agreements with a group of banks that fixed the base LIBOR interest rate on the BAML Term Loan at 1.12% per annum for the period beginning on September 27, 2017 and ending on September 27, 2021. Accordingly, based upon the Company's credit rating, as of December 31, 2019, the effective interest rate on the BAML Term Loan was 2.47% per annum.

#### BAML Credit Facility General Information

The BAML Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The BAML Credit Facility also contains financial covenants that require the Company to maintain a minimum tangible net worth, a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, a maximum unencumbered leverage ratio, and minimum unsecured interest coverage. The BAML Credit Facility provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, certain cross defaults and a change in control of the Company (as defined in the BAML Credit Facility). In the event of a default by the Company, the administrative agent may, and at the request of the requisite number of lenders shall, declare all obligations under the BAML Credit Facility immediately due and payable, terminate the lenders' commitments to make loans under the BAML Credit Facility, and enforce any and all rights of the lenders or administrative agent under the BAML Credit Facility and related documents. For certain events of default related to bankruptcy, insolvency, and receivership, the commitments of lenders will be automatically terminated and all outstanding obligations of the Company will become immediately due and payable. The Company was in compliance with the BAML Credit Facility financial covenants as of December 31, 2019.

The Company may use the proceeds of the loans under the BAML Credit Facility 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 BAML Credit Facility.

#### Senior Notes

On October 24, 2017, the Company entered into a note purchase agreement (the "Note Purchase Agreement") with the various purchasers named therein (the "Purchasers") in connection with a private placement of senior unsecured notes. Under the Note Purchase Agreement, the Company agreed to sell to the Purchasers an aggregate principal amount of \$200,000,000 of senior unsecured notes consisting of (i) 3.99% Series A Senior Notes due December 20, 2024 in an aggregate principal amount of \$116 million (the "Series A Notes") and (ii) 4.26% Series B Senior Notes due December 20, 2027 in an aggregate principal amount of \$84 million (the "Series B Notes," and, together with the Series A Notes, the "Senior Notes"). On December 20, 2017, the Senior Notes were funded and the proceeds were used to reduce the outstanding balance of the BAML Revolver.

The Note Purchase Agreement contains customary financial covenants, including a maximum leverage ratio, a maximum secured leverage ratio, a minimum fixed charge coverage ratio, and a maximum unencumbered leverage ratio. The Note Purchase Agreement also contains restrictive covenants that, among other things, restrict the ability of the Company and its subsidiaries to enter into transactions with affiliates, merge, consolidate, create liens, make certain restricted payments, enter into certain agreements or prepay certain indebtedness. Such financial and restrictive covenants are substantially similar to the corresponding covenants contained in the BAML Credit Facility, the BMO Credit Agreement and the JPM Credit Agreement. The Senior Notes financial covenants require, among other things, the maintenance of a fixed charge coverage ratio of at least 1.50; a maximum leverage ratio and an unsecured leverage ratio of no more than 60% (65% if there were a significant acquisition for a short period of time). In addition, the Note Purchase Agreement provides that the Note Purchase Agreement will automatically incorporate additional financial and other specified covenants (such as limitations on investments and distributions) that are effective from time to time under the existing credit agreements, other material indebtedness or certain other private placements of debt of the Company and its subsidiaries. The Note Purchase Agreement contains customary events of default, including payment defaults, cross defaults with certain other indebtedness, breaches of covenants and bankruptcy events. In the case of an event of default, the Purchasers may, among other remedies, accelerate the payment of all obligations. The Company was in compliance with the Senior Notes financial covenants as of December 31, 2019.

## 5. Financial Instruments: Derivatives and Hedging

On July 22, 2016, the Company fixed the interest rate for the period beginning on September 27, 2017 and ending on September 27, 2021 on the BAML Term Loan (the “2017 Interest Rate Swap”). On August 26, 2013, the Company fixed the interest rate until August 26, 2020 on the BMO Term Loan (the “2013 BMO Interest Rate Swap”). On March 7, 2019, the Company fixed the interest rate for the period beginning on March 29, 2019 and ending on November 30, 2021 on a \$100 million portion of the JPM Term Loan (the “2019 JPM Interest Rate Swap”). On February 20, 2019, the Company fixed the interest rate for the period beginning August 26, 2020 and ending January 31, 2024 on the BMO Term Loan (the “2019 BMO Interest Rate Swap”). The variable rates that were fixed under the 2017 Interest Rate Swap, the 2013 BMO Interest Rate Swap, the 2019 JPM Interest Rate Swap and the 2019 BMO Interest Rate Swap (collectively referred to as the “Interest Rate Swaps”) are described in Note 4.

The Interest Rate Swaps qualify as cash flow hedges and have been recognized on the consolidated balance sheets at fair value. If a derivative qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative’s change in fair value will be recognized in earnings in the same period in which the hedged interest payments affect earnings, which may increase or decrease reported net income and stockholders’ equity prospectively, depending on future levels of interest rates and other variables affecting the fair values of derivative instruments and hedged items, but will have no effect on cash flows.

The following table summarizes the notional and fair value of our derivative financial instruments at December 31, 2019. The notional value is an indication of the extent of our involvement in these instruments at that time, but does not represent exposure to credit, interest rate or market risks.

(in thousands)	Notional Value	Strike Rate	Effective Date	Expiration Date	Fair Value
2017 Interest Rate Swap	\$ 400,000	1.12 %	Sep-17	Sep-21	\$ 3,022
2013 BMO Interest Rate Swap	\$ 220,000	2.32 %	Aug-13	Aug-20	\$ (963)
2019 JPM Interest Rate Swap	\$ 100,000	2.44 %	Mar-19	Nov-21	\$ (1,634)
2019 BMO Interest Rate Swap (1)	\$ 220,000	2.39 %	Aug-20	Jan-24	\$ (5,107)

(1) The Notional Value will decrease to \$165 million on November 30, 2021.

On December 31, 2019, the 2017 Interest Rate Swap was reported as an asset at its fair value of approximately \$3.0 million, which is included in other assets: derivative asset on the consolidated balance sheet at December 31, 2019. The 2013 BMO Interest Rate Swap, 2019 JPM Interest Rate Swap and 2019 BMO Interest Rate Swap were reported as liabilities with an aggregate fair value of approximately \$7.7 million and are included in other liabilities: derivative liabilities in the consolidated balance sheet at December 31, 2019.

The gain/(loss) on the Company’s Interest Rate Swaps that was recorded in OCI and the accompanying consolidated statements of income as a component of interest expense for the years ended December 31, 2019, 2018 and 2017, respectively, was as follows:

(in thousands)	Year Ended December 31,		
Interest Rate Swaps in Cash Flow Hedging Relationships:	2019	2018	2017
Amounts of gain (loss) recognized in OCI	\$ (15,119)	\$ 5,321	\$ 4,867
Amounts of previously recorded gain/(loss) reclassified from OCI into Interest Expense	\$ 4,328	\$ 2,722	\$ (1,821)
Total amount of Interest Expense presented in the consolidated statements of income	\$ 36,757	\$ 38,374	\$ 32,387

Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified into earnings as an increase or reduction to interest expense in the same periods in which the hedged interest payments affect earnings. The Company estimates that approximately \$1.3 million of the current balance held in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The Company is hedging the exposure to variability in anticipated future interest payments on existing debt.

The BMO Term Loan, BAML Term Loan and JPM Term Loan hedging transactions used derivative instruments that involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in either or both of the contracts. The Company requires its derivatives contracts to be with counterparties that have investment grade ratings. As a result, the Company does not anticipate that any counterparty will fail to meet its obligations. However, there can be no assurance that the Company will be able to adequately protect against the foregoing risks or that it will ultimately realize an economic benefit that exceeds the related amounts incurred in connection with engaging in such hedging strategies.

The fair value of the Company's derivative instruments are determined using the net discounted cash flows of the expected cash flows of the derivative based on the market based interest rate curve and are adjusted to reflect credit or nonperformance risk. The risk is estimated by the Company using credit spreads and risk premiums that are observable in the market. These financial instruments were classified within Level 2 of the fair value hierarchy and were classified as an asset or liability on the consolidated balance sheets.

The Company's derivatives are recorded at fair value in other assets: derivative asset and other liabilities: derivative liability in the consolidated balance sheets and the effective portion of the derivatives' fair value is recorded to other comprehensive income in the consolidated statements of other comprehensive income (loss) and prior to January 1, 2019, the ineffective portion of the derivatives' fair value was recognized directly into earnings as other in the consolidated statements of income.

The interest rate swaps effectively fix the interest rate on the BAML Term Loan and BMO Term Loan; however, prior to October 18, 2017, there was no floor on the variable interest rate of the swap whereas the BAML Term Loan and BMO Term Loan were subject to a zero percent floor. As a result there was a mismatch and the ineffective portion of the derivatives' changes in fair value were recognized directly into earnings. On October 18, 2017, the Company amended the BMO Term Loan and BAML Term Loan to, among other changes, provide that the deemed zero percent interest rate floor is not applicable to any loan where there is a corresponding interest rate swap contract in place.

## **6. Stockholders' Equity**

### *Equity Offerings*

On August 16, 2016, the Company completed an underwritten public offering of 7,043,750 shares of its common stock (including 918,750 shares issued as a result of the full exercise of an overallotment option by the underwriter) at a price to the public of \$12.35 per share. The proceeds from this public offering, net of underwriter discounts and offering costs, totaled approximately \$82.9 million.

### *Equity-Based Compensation*

On May 20, 2002, the stockholders of the Company approved the 2002 Stock Incentive Plan (the "Plan"). The Plan is an equity-based incentive compensation plan, and provides for the grants of up to a maximum of 2,000,000 shares of the Company's common stock ("Awards"). All of the Company's employees, officers, directors, consultants and advisors are eligible to be granted Awards. Awards under the Plan are made at the discretion of the Company's Board of Directors, and have no vesting requirements. Upon granting an Award, the Company will recognize compensation cost equal to the fair value of the Company's common stock, as determined by the Company's Board of Directors, on the date

of the grant. The Company granted 55,572 shares under the Plan between 2002 and 2005 and made no grants between 2006 and 2018.

On December 10, 2019, the Company granted 38,046 shares under the Plan to non-employee directors at a compensation cost of approximately \$337,000, which is included in general and administrative expenses in the consolidated statements of income. Such shares were fully vested on the date of issuance. There are currently 1,906,382 shares available for grant under the Plan.

<u>(in thousands)</u>	<u>Shares Available for Grant</u>	<u>Compensation Cost</u>
Balance, December 31, 2016, 2017 and 2018	1,944,428	
Shares granted 2019	(38,046)	\$ 337,000
Balance December 31, 2019	<u>1,906,382</u>	<u>\$ 337,000</u>

## 7. Federal Income Tax Reporting

### *General*

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

One such restriction is that the Company generally cannot own more than 10% of the voting power or value of the securities of any one issuer unless the issuer is itself a REIT or a taxable REIT subsidiary (“TRS”). In the case of TRSs, the Company’s ownership of securities in all TRSs generally cannot exceed 20% (25% of taxable years beginning on or before December 31, 2017) of the value of all of the Company’s assets and, when considered together with other non-real estate assets, cannot exceed 25% of the value of all of the Company’s assets. FSP Investments LLC and FSP Protective TRS Corp. are the Company’s taxable REIT subsidiaries operating as taxable corporations under the Code. The TRSs have gross amounts of net operating losses (“NOLs”) available to those taxable corporations of \$4.4 million, \$4.2 million and \$4.0 million as of each of December 31, 2019, 2018 and 2017, respectively. The NOLs created prior to 2018 will expire between 2030 and 2047 and the NOLs generated after 2017 will not expire. A valuation allowance is provided for the full amount of the NOLs as the realization of any tax benefits from such NOLs is not assured.

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

The Company adopted an accounting pronouncement related to uncertainty in income taxes effective January 1, 2007, which did not result in recording a liability, nor was any accrued interest and penalties recognized with the adoption. Accrued interest and penalties will be recorded as income tax expense, if the Company records a liability in the future. The Company’s effective tax rate was not affected by the adoption. The Company and one or more of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The statute of limitations for the Company’s income tax returns is generally three years and as such, the Company’s returns that remain subject to examination would be primarily from 2016 and thereafter.

The Company is subject to a business tax known as the Revised Texas Franchise Tax. Some of the Company’s leases allow reimbursement by tenants for these amounts because the Revised Texas Franchise Tax replaces a portion of the property tax for school districts. Because the tax base on the Revised Texas Franchise Tax is derived from an income

based measure, it is considered an income tax. The Company recorded a provision for the Revised Texas Franchise Tax of \$0.4 million, \$0.3 million and \$0.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

*Net operating losses*

Section 382 of the Code restricts a corporation’s ability to use net operating losses (“NOLs”) to offset future taxable income following certain “ownership changes.” Such ownership changes occurred with past mergers and accordingly a portion of the NOLs incurred by the Sponsored REITs available for use by the Company in any particular future taxable year will be limited. To the extent that the Company does not utilize the full amount of the annual NOLs limit, the unused amount may be carried forward to offset taxable income in future years. NOLs expire 20 years after the year in which they arise, and the last of the Company’s NOLs will expire in 2027. A valuation allowance is provided for the full amount of the NOLs as the realization of any tax benefits from such NOLs is not assured. The gross amount of NOLs available to the Company was \$13.0 million as of each of December 31, 2019, 2018 and 2017.

*Income Tax Expense*

The income tax expense reflected in the consolidated statements of income relates primarily the Revised Texas Franchise Tax. FSP Protective TRS Corp. provides taxable services to tenants at some of the Company’s properties and the tax expense associated with these activities are reported as Other Taxes in the table below:

<b>(Dollars in thousands)</b>	<b>For the Year Ended December</b>		
	<b>31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revised Texas Franchise Tax	\$ 394	\$ 319	\$ 355
Other Taxes	(125)	41	45
Tax expense	<u>\$ 269</u>	<u>\$ 360</u>	<u>\$ 400</u>

Taxes on income are a current tax expense. No deferred income taxes were provided as there were no material temporary differences between the financial reporting basis and the tax basis of the TRSs.

At December 31, 2019, the Company’s net tax basis of its real estate assets is more than the amount set forth in the Company’s consolidated balance sheets by \$195.0 million and at December 31, 2018, the Company’s net tax basis of its real estate assets is more than the amount set forth in the Company’s consolidated balance sheets by \$199.6 million.

### Reconciliation Between GAAP Net Income (Loss) and Taxable Income

The following reconciles GAAP net income (loss) to taxable income for the years ended December 31, 2019, 2018 and 2017.

<u>(in thousands)</u>	<u>For the year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income (loss) per GAAP	\$ 6,475	\$ 13,069	\$ (15,944)
Adjustments to GAAP net income (loss):			
GAAP depreciation and amortization	90,507	93,675	100,227
Tax depreciation and amortization	(66,376)	(62,657)	(62,653)
Tax basis more than GAAP basis on assets sold	—	—	(907)
Straight line rent adjustment, net	(10,462)	(1,350)	(2,977)
Deferred rent, net	535	210	1,226
Non-taxable distributions	—	(710)	(1,289)
Other, net	4,099	(6,651)	6,582
Taxable income	24,778	35,586	24,265
Less: Capital gains recognized	—	—	—
Taxable income subject to distribution requirement	<u>\$ 24,778</u>	<u>\$ 35,586</u>	<u>\$ 24,265</u>

### *Tax Components*

The following summarizes the tax components of the Company's common distributions paid per share for the years ended December 31, 2019, 2018 and 2017:

	<u>2019</u>		<u>2018</u>		<u>2017</u>	
	<u>Per Share</u>	<u>%</u>	<u>Per Share</u>	<u>%</u>	<u>Per Share</u>	<u>%</u>
Ordinary income (1)	\$ 0.25	69.96 %	\$ 0.35	76.39 %	\$ 0.24	31.74 %
Capital gain	—	— %	—	— %	—	— %
Return of capital	0.11	30.04 %	0.11	23.61 %	0.52	68.26 %
Total	<u>\$ 0.36</u>	<u>100 %</u>	<u>\$ 0.46</u>	<u>100 %</u>	<u>\$ 0.76</u>	<u>100 %</u>

The Ordinary income amount includes a qualified distribution, which is a subset of, and included in, the ordinary income amount and is \$0.009 per share or 2.52% of total distributions.

### **8. Leases**

Leases as a Lessee:

The Company entered into a noncancelable contract with a third party to obtain office space that commenced on September 1, 2010. The contract was amended on October 25, 2016 to extend the contract through September 30, 2024. As of December 31, 2019, the Company's right-of-use asset was \$1.8 million, which is included in prepaid and other assets on the consolidated balance sheet as of December 31, 2019.

The Company has an option to extend the terms of its office space lease with one 5-year extension. As of December 31, 2019, the exercise of the extension option was not reasonably certain. Therefore, the extension option is not recognized as part of the Company's right-of-use asset and lease liability.

A discount rate equal to the Company's incremental borrowing rate was applied to the future monthly contractual lease payments remaining as of December 31, 2019 to compute the lease liability. The incremental borrowing rate is the rate equal to the closest borrowing under the BAML Revolver at the time of the Company's adoption of ASU 2016-02.

<b>Lease Costs</b>	<b>For the</b>
<b>(in thousands)</b>	<b>Year Ended</b>
<b>(in thousands)</b>	<b>December 31, 2019</b>
Operating lease cost	\$ 419
	<u>\$ 419</u>
<b>Other information</b>	
Cash paid for amounts included in the measurement of lease liabilities	\$ 412
Weighted average remaining lease terms in years - operating leases	4.75
Weighted average discount rate - operating leases	3.86%
<b>Maturity analysis for liabilities</b>	
<b>(in thousands)</b>	<b>Total</b>
<b>(in thousands)</b>	<b>Undiscounted</b>
<b>(in thousands)</b>	<b>Cash Flows</b>
Discount rate at commencement	3.86%
2020	\$ 421
2021	429
2022	438
2023	447
2024	340
	<u>\$ 2,075</u>
Present value lease liability	\$ 1,890
Difference between undiscounted cash flows and discounted cash flows	\$ 185

#### Leases as a Lessor:

The Company is a lessor of commercial real estate with operations that include the leasing of office and industrial properties. Many of the leases with customers contain options to extend leases at a fair market rate and may also include options to terminate leases. The Company considers several inputs when evaluating the amount it expects to derive from its leased assets at the end of the lease terms, such as the remaining useful life, expected market conditions, fair value of lease payments, expected fair values of underlying assets, and expected deployment of the underlying assets. The Company's strategy to address its risk for the residual value in its commercial real estate is to re-lease the commercial space.

The Company has elected to apply the practical expedient to not separate non-lease components from the related lease component of real estate leases. This combined component is primarily comprised of fixed lease payments, early termination fees, common area maintenance cost reimbursements, and parking lease payments. The Company applies ASC 842-Leases to the combined lease and non-lease components.

A minority of the Company's leases are subject to annual changes in the Consumer Price Index ("CPI"). Although increases in the CPI are not estimated as part of the Company's measurement of straight-line rent revenue, to the extent that the actual CPI is greater or less than the CPI at lease commencement, there could be changes to realized income or loss.



For the year ended December 31, 2019, the Company recognized the following amounts of income relating to lease payments:

<b>Income relating to lease payments:</b>	<b>For the Year Ended December 31, 2019</b>
<b>(in thousands)</b>	
Income from leases (1)	\$ 256,250
	<u>\$ 256,250</u>
<b>Undiscounted Cash Flows</b>	<b>Year ending</b>
<b>(in thousands)</b>	<b>December 31,</b>
2020	\$ 171,874
2021	169,399
2022	144,949
2023	129,900
2024	115,271
2025 and thereafter	360,408
	<u>\$ 1,091,801</u>

(1) Amount from variable lease payments \$64,421

## 9. Retirement Plan

In 2006, the Company established a 401(k) plan to cover eligible employees, which permitted deferral of up to \$17,000 per year (indexed for inflation) into the 401(k) plan, subject to certain limitations imposed by the Internal Revenue Code. An employee's elective deferrals are immediately vested upon contribution to the 401(k) plan. The Company matches employee contributions to the 401(k) plan dollar for dollar up to 3% of each employee's annual compensation up to \$200,000. In addition, we may elect to make an annual discretionary profit-sharing contribution. The Company's total contribution under the 401(k) plan amounted to \$0.2 million, \$0.1 million and \$0.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## 10. Dispositions of Property

During the three months ended June 30, 2017, the Company reached a decision to classify an office property located in Baltimore, Maryland as an asset held for sale. In evaluating the Baltimore, Maryland property, management considered various subjective factors, including the time, cost and likelihood of successfully leasing the property, the effect of the property's results on its unencumbered asset value, which is part of the leverage ratio used to compare to a maximum leverage covenant in the JPM Term Loan, BMO Term Loan and the BAML Credit Facility, 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. The Company 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 \$20.5 million and was classified as an asset held for sale of \$31.9 million at June 30, 2017. During the three months ended September 30, 2017, the Company increased the provision for loss by \$0.3 million to \$20.7 million, and the property was classified as an asset held for sale in the amount of \$31.6 million at September 30, 2017. The Company sold the property on October 20, 2017 for net proceeds of \$31.6 million resulting in a total loss of \$20.8 million.

During the three months ended December 31, 2016, the Company reached an agreement to sell an office property located in Milpitas, California. The property was classified as an asset held for sale at December 31, 2016 and was sold on January 6, 2017 at approximately a \$2.3 million gain.

## 11. Subsequent Events

On January 10, 2020, the Board of Directors of the Company declared a cash distribution of \$0.09 per share of common stock payable on February 13, 2020 to stockholders of record on January 24, 2020.

## 12. Selected Unaudited Quarterly Information

Selected unaudited quarterly information is shown in the following table:

	2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Revenue	\$ 64,716	\$ 66,813	\$ 68,539	\$ 68,997
Net income (loss)	\$ (1,205)	\$ 1,633	\$ 2,399	\$ 3,648
Basic and diluted net income (loss) per share	\$ (0.01)	\$ 0.02	\$ 0.02	\$ 0.03
Weighted average number of shares outstanding	107,231	107,231	107,231	107,240
	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Revenue	\$ 66,893	\$ 66,694	\$ 68,705	\$ 66,578
Net income	\$ 1,425	\$ 665	\$ 9,608	\$ 1,371
Basic and diluted net income per share	\$ 0.01	\$ 0.01	\$ 0.09	\$ 0.01
Weighted average number of shares outstanding	107,231	107,231	107,231	107,231

Franklin Street Properties Corp.  
Valuation and qualifying accounts:

(in thousands) Classification	Balance at beginning of year	Additions (Decreases) charged to costs and expenses	Deductions	Balance at end of year
Allowance for doubtful accounts				
2017	\$ 100	\$ 178	\$ (28)	\$ 250
2018	250	128	(178)	200
2019	200	213	(113)	300
Straight-line rent allowance for doubtful accounts				
2017	\$ 50	\$ —	\$ —	\$ 50
2018	50	—	—	50
2019	50	—	—	50

FRANKLIN STREET PROPERTIES CORP.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2019

Description	Encumbrances		Initial Cost				Historical Cost				Total (2)	Accumulated Depreciation	Total Costs, Net of Accumulated Depreciation	Depreciable Life	Year Built	Date of Acquisition	
	(1)		Land	Buildings and Equipment	Buildings Improvements and Equipment	Land	Buildings and Equipment	Buildings Improvements and Equipment	Land	Buildings and Equipment							Buildings Improvements and Equipment
<b>Commercial Properties:</b>																	
Forest Park, Charlotte, NC	—	\$ 1,559	\$ 5,672	\$ 446	\$ 1,559	\$ 6,118	\$ 7,677	2,148	\$ 5,529	5	39	1999	1999				
Meadow Point, Chantilly, VA	—	2,634	18,911	7,305	2,634	26,216	28,850	13,555	15,295	5	39	1999	2001				
Timberlake, Chesterfield, MO	—	2,984	38,661	9,919	2,984	48,580	51,564	21,437	30,127	5	39	1999	2001				
Northwest Point, Elk Grove Village, IL	—	2,914	26,295	12,304	2,914	38,599	41,513	18,391	23,122	5	39	1999	2001				
Timberlake East, Chesterfield, MO	—	2,626	17,608	4,768	2,626	22,376	25,002	10,037	14,965	5	39	2000	2002				
Park Ten, Houston, TX	—	1,061	21,303	5,922	567	27,719	28,286	12,237	16,049	5	39	1999	2002				
Addison, Addison, TX	—	4,325	48,040	11,067	4,325	59,107	63,432	21,258	42,174	5	39	1999	2002				
Collins, Richardson, TX	—	4,000	42,598	7,508	4,000	50,106	54,106	21,876	32,230	5	39	1999	2003				
Greenwood, Englewood, CO	—	3,100	30,201	11,157	3,100	41,358	44,458	17,024	27,434	5	39	2000	2005				
River Crossing, Indianapolis, IN	—	3,000	36,926	4,521	3,000	41,447	44,447	15,733	28,714	5	39	1998	2005				
Innsbrook, Glenn Allen, VA	—	5,000	40,216	5,958	5,000	46,174	51,174	17,850	33,324	5	39	1999	2003				
380 Interlocken, Bloomfield, CO	—	8,275	34,462	9,919	8,275	44,381	52,656	18,186	34,470	5	39	2000	2003				
Blue Lagoon, Miami, FL	—	6,306	46,124	6,373	6,306	52,497	58,803	14,998	43,805	5	39	2002	2004				
Eldridge Green, Houston, TX	—	3,900	43,791	4,536	3,900	48,327	52,227	18,372	33,855	5	39	1999	2003				
Liberty Plaza, Addison, TX	—	4,374	21,146	8,307	4,374	29,453	33,827	11,112	22,715	5	39	1985	2006				
One Overton, Atlanta, GA	—	3,900	77,229	15,453	3,900	92,682	96,582	33,767	62,815	5	39	2002	2006				
390 Interlocken, Broomfield, CO	—	7,013	37,751	14,063	7,013	51,814	58,827	16,370	42,457	5	39	2002	2006				
Park Ten II, Houston, TX	—	1,300	31,712	6,616	1,300	38,328	39,628	10,147	29,481	5	39	2006	2006				
Dulles Virginia, Sterling, VA	—	4,813	13,285	6,082	4,813	19,367	24,180	6,384	17,796	5	39	1999	2008				
Stonecroft, Chantilly, VA	—	2,102	18,003	63	2,102	18,066	20,168	4,847	15,321	5	39	2008	2009				
121 South Eight Street, Minneapolis, MN	—	4,444	15,214	22,793	4,444	38,007	42,451	8,952	33,499	5	39	1974	2010				
801 Marquette Ave South, Minneapolis, MN	—	4,184	—	22,190	4,184	22,190	26,374	904	25,470	5	39	1923	2010				
909 Davis, Evanston, IL	—	4,912	18,229	7,298	4,912	25,527	30,439	5,832	24,607	5	39	2002	2011				
Emperor Boulevard, Durham, NC	—	2,423	53,997	1,052	2,423	55,049	57,472	12,346	45,126	5	39	2009	2011				
Legacy Tennyson Center, Plano, TX	—	3,067	22,064	2,518	3,067	24,582	27,649	5,519	22,130	5	39	2008	2011				
One Legacy Circle, Plano, TX	—	2,590	36,608	2,678	2,590	39,286	41,876	9,895	31,981	5	39	2008	2011				
One Ravinia Drive, Atlanta, GA	—	2,686	35,125	9,557	2,686	44,682	47,368	9,142	38,226	5	39	1985	2012				
Two Ravinia Drive, Atlanta, GA	—	7,375	58,726	10,641	7,375	69,367	76,742	9,113	67,629	5	39	1987	2015				
Westchase I & II, Houston, TX	—	8,491	121,508	12,303	8,491	133,811	142,302	25,745	116,557	5	39	2008	2012				
1999 Broadway, Denver CO	—	16,334	137,726	30,899	16,334	168,625	184,959	28,194	156,765	5	39	1986	2013				
999 Peachtree, Atlanta, GA	—	10,187	107,727	17,689	10,187	125,416	135,603	20,955	114,668	5	39	1987	2013				
1001 17th Street, Denver, CO	—	17,413	165,058	18,084	17,413	183,142	200,555	29,608	170,947	5	39	2006	2013				
Plaza Seven, Minneapolis, MN	—	6,604	54,240	7,787	6,604	62,027	68,631	6,962	61,669	5	39	1987	2016				
Pershing Plaza, Atlanta, GA	—	5,300	34,158	1,417	5,300	35,575	40,875	3,117	37,758	5	39	1989	2016				
600 17th Street, Denver, CO	—	20,876	99,941	6,387	20,876	106,328	121,204	8,704	118,500	5	39	1982	2016				
Balance — Real Estate	—	\$ 192,072	\$ 1,610,255	\$ 325,580	\$ 191,578	\$ 1,936,329	\$ 2,127,907	\$ 490,697	\$ 1,637,210								

(1) There are no encumbrances on the above properties.  
(2) The aggregate cost for Federal Income Tax purposes is \$2,355,479.  
(3) Original date of acquisition by Sponsored Entity.

The following table summarizes the changes in the Company's real estate investments and accumulated depreciation:

(in thousands)	December 31,		
	2019	2018	2017
<b>Real estate investments, at cost:</b>			
Balance, beginning of year	\$ 2,058,352	\$ 2,008,823	\$ 2,027,520
Improvements	74,324	53,279	54,097
Dispositions	(4,769)	(3,750)	(72,794)
<b>Balance, end of year - Real Estate</b>	<b><u>\$ 2,127,907</u></b>	<b><u>\$ 2,058,352</u></b>	<b><u>\$ 2,008,823</u></b>
<b>Accumulated depreciation:</b>			
Balance, beginning of year	\$ 432,579	\$ 376,131	\$ 338,506
Depreciation	62,887	60,198	57,312
Dispositions	(4,769)	(3,750)	(19,687)
<b>Balance, end of year - Accumulated Depreciation</b>	<b><u>\$ 490,697</u></b>	<b><u>\$ 432,579</u></b>	<b><u>\$ 376,131</u></b>

**DESCRIPTION OF SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT**

The following description of the common stock, par value \$0.0001 per share (the “Common Stock”) of Franklin Street Properties Corp. (“us,” “our,” “we” or the “Company”), which is the only security of the Company registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), summarizes certain information regarding the Common Stock in our Articles of Incorporation, as amended (the “Articles of Incorporation”), our Amended and Restated Bylaws (the “Bylaws”) and applicable provisions of Maryland General Corporation Law (the “MGCL”), and is qualified by reference to the Articles of Incorporation and the Bylaws, which are incorporated by reference as Exhibit 3.1 and Exhibit 3.2, respectively, to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

**Authorized Capital Stock**

Our authorized capital stock consists of 200,000,000 shares of capital stock, consisting of 180,000,000 shares of Common Stock and 20,000,000 shares of preferred stock, par value \$0.0001 per share (the “Preferred Stock”). Our Articles of Incorporation authorize our board of directors to amend our Articles of Incorporation to increase or decrease the aggregate number of shares of capital stock or the number of shares of stock of any class without stockholder approval.

**Common Stock**

*Voting Rights.* Subject to the provisions of our Articles of Incorporation regarding the restrictions on transfer and ownership of shares of our Common Stock, each outstanding share of Common Stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. There is no cumulative voting in the election of directors.

Pursuant to the MGCL, a corporation generally cannot dissolve, amend its articles of incorporation, merge, sell all or substantially all of its assets, engage in a share exchange or consolidate or engage in similar transactions outside the ordinary course of business unless such action is advised by the board of directors and approved by the affirmative vote of holders of at least two-thirds of the shares of stock entitled to vote on the matter unless a lesser percentage (but not less than a majority of all of the votes to be cast on the matter) is set forth in the corporation's articles of incorporation. Our Articles of Incorporation provide that we may amend the Articles of Incorporation (with several exceptions), merge, sell all or substantially all of our assets, engage in a share exchange or consolidate or engage in similar transactions outside the ordinary course of business, with the approval of the holders of a majority of the shares of stock entitled to vote on the matter. However, the MGCL permits a corporation to transfer all or substantially all of its assets without the approval of the stockholders of the corporation to one or more persons if all of the equity interests of the person or persons are owned, directly or indirectly, by the corporation.

Our Articles of Incorporation provide that in addition to any vote of the holders required by the terms of any then outstanding shares of preferred stock, the affirmative vote of at least 80% of the shares of our capital stock entitled to vote shall be required to:

- add, amend or repeal any term or provision of our Articles of Incorporation in any respect that would, in the determination of our board of directors, cause us not to qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended, unless our board of directors has determined that such qualification is no longer in our best interests;
- amend or repeal, or adopt any provision inconsistent with, the provisions of our Articles of Incorporation: establishing the standards and procedures for the removal of a director; eliminating the personal liability of a director or officer to us or our stockholders for monetary damages; requiring us to indemnify our directors, officers, employees, agents and other persons acting on behalf of or at the request of us to the fullest extent permitted from time to time by Maryland law; or establishing this super-majority voting requirement; and
- adding to our Articles of Incorporation any provision imposing cumulative voting in the election of directors.

*Dividends, Liquidation and Other Rights.* Subject to the preferential rights of any other class or series of our stock and to the provisions of our Articles of Incorporation regarding the restrictions on ownership and transfer of shares of stock, holders of shares of Common Stock are entitled to receive dividends on such shares of Common Stock if, as and when authorized by our board of directors, and declared by us out of assets legally available therefor. Such holders are also entitled to share ratably in the assets of our company legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment or establishment of reserves or other adequate provision for all debts and liabilities of our company and any stock with preferential rights related thereto. Under Maryland law, stockholders generally are not liable for the corporation's debts or obligations.

Holders of shares of Common Stock have no preference, conversion, exchange or sinking fund rights, have no preemptive rights to subscribe for any of our securities and generally have no appraisal rights. Subject to the provisions of our Articles of Incorporation regarding the restrictions on ownership and transfer of shares of stock, shares of Common Stock will have equal dividend, liquidation and other rights.

*Power to Reclassify Our Unissued Shares of Stock.* Our board of directors is authorized by our Articles of Incorporation to classify and reclassify any of our unissued shares of capital stock by, among other alternatives, setting, altering or eliminating in any one or more respects, from time to time before the issuance of such shares, any feature of such shares, including but not limited to the designation, preferences, conversion or other rights, voting powers, qualifications and terms and conditions of redemption of, limitations as to dividends and any other restrictions on such shares, without the approval of the holders of our Common Stock. As a result, our board of directors could authorize, without further action by the holders of our Common Stock, the issuance of shares of preferred stock that have priority over the shares of our Common Stock with respect to dividends, distributions and rights upon liquidation and with other terms and conditions that could have the effect of delaying, deterring or preventing a transaction or a change in control that might involve a premium price for holders of shares of our Common Stock or otherwise might be in their best interest.

## **Restrictions on Ownership**

To maintain our qualification as a REIT, among other things, not more than 50% in value of our outstanding shares of stock may be owned, directly or indirectly (taking into account certain constructive ownership rules under the Internal Revenue Code of 1986, as amended, or the tax code), by five or fewer individuals. Our Articles of Incorporation provide that no person may beneficially or constructively own more than 9.8% of the number or value of our outstanding shares, unless exempted by our Board in its sole and absolute discretion. Our Articles of Incorporation also provide that no person may transfer or acquire our shares to the extent that doing so would result in our outstanding shares being beneficially owned by fewer than 100 persons, and that no person may transfer, acquire or beneficially or constructively own shares to the extent that doing so would result in our violating the 50% ownership limitation described in the first sentence of this paragraph or would otherwise result in our failing to qualify as a REIT.

Our Articles of Incorporation also provide that on an annual basis we will use our best efforts to redeem any shares of our Common Stock from holders who desire to sell them. The purchase price paid by us will be 90% of the fair market value of the shares purchased, as determined by our board of directors in its sole and absolute discretion after consultation with an adviser selected by our Board. We have no obligation to redeem shares of our Common Stock during any period that our Common Stock is listed for trading on a national securities exchange.

## **Provisions of our Articles of Incorporation and Bylaws and Maryland Law that may have Anti-Takeover Effects**

*Board of Directors.* Our Articles of Incorporation and Bylaws provide that our board of directors may establish the number of directors as long as the number is not fewer than the minimum required under the MGCL. Prior to our 2019 annual meeting of stockholders, our board of directors was divided into three classes, with directors of each class elected to serve a three year term. Following the 2019 annual meeting of stockholders, we amended our articles of incorporation to provide that each of the successors to the directors whose terms expired in 2020 would be elected to serve until the next annual meeting of stockholders, each of the successors to the directors whose terms expired in 2021, along with the successors to the directors elected at the 2020 annual meeting of stockholders, would be elected to serve until the following annual meeting of stockholders and beginning with the annual meeting of stockholders in 2022 all directors would be elected to serve until the next annual meeting of stockholders. Except as may be provided by our board of directors in setting the terms of any class of preferred stock, any vacancy on our board of directors occurring for any reason, other than an increase in the number of directors, may be filled by a vote of a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and any vacancy on our board of directors created by an increase in the number of directors may be filled by a vote of a majority of our entire board of directors. Any director elected to fill a vacancy will serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualified.

*Removal of Directors by Stockholders.* Our Articles of Incorporation and Bylaws provide that members of our board of directors may only be removed for cause, and then only by the affirmative vote of the holders of at least two-thirds of the outstanding shares entitled to vote on the election of the directors. This provision, when coupled with the provision in our Bylaws



authorizing our board of directors to fill vacant directorships, precludes stockholders from removing incumbent directors and filling the vacancies created by such removal with their own nominees.

*Stockholder Nomination of Directors.* Our Bylaws provide that a stockholder must notify us in writing of any stockholder nomination of a director not earlier than the 150<sup>th</sup> day and not later than the 120<sup>th</sup> day prior to the first anniversary of the mailing date of the notice of the preceding year's annual meeting.

*Business Combinations.* Under the MGCL, certain "business combinations" (including a merger, consolidation, share exchange or, in certain circumstances specified under the statute, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any interested stockholder, or an affiliate of such an interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Maryland law defines an interested stockholder as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation's outstanding voting stock after the date on which the corporation had 100 or more beneficial owners of its stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approves in advance the transaction by which the person otherwise would have become an interested stockholder. In approving a transaction, however, the board of directors may provide that its approval is subject to compliance, at or after the time of the approval, with any terms and conditions determined by the board of directors.

After the five-year prohibition, any business combination between the company and an interested stockholder generally must be recommended by the board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of corporation; and
- two-thirds of the votes entitled to be cast by holders of shares of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if, among other conditions, the corporation's common stockholders receive a minimum price (as described under the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a corporation's board of directors prior to the time that the interested stockholder becomes an interested stockholder.

*Control Share Acquisitions.* The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved at a special meeting of stockholders by the affirmative vote of two-thirds of the votes entitled to be cast on the matter. Votes entitled to be cast on the matter exclude votes of shares of stock in the corporation in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of such shares in the election or directors: (1) a person who makes or proposes to make a control share acquisition; (2) an officer of the corporation; or (3) an employee of the corporation who is also a director of the corporation.

"Control shares" are voting shares of stock that, if aggregated with all other such shares of stock previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition, directly or indirectly, of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses and making an "acquiring person statement" as described in the MGCL), may compel our board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the control shares. If no request for a special meeting is made, we may present the question at any stockholders meeting.

If voting rights of control shares are not approved at the meeting or if the acquiring person does not deliver an "acquiring person statement" as required by the MGCL, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value. Fair value is determined without regard to the absence of voting rights for the control shares and as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at the stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply (1) to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction or (2) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation.

Our Bylaws contain a provision exempting from the control share acquisition statute all shares of our capital stock to the fullest extent permitted by Maryland law. We can provide no assurance that our board of directors will not amend or eliminate such provision at any time in the future. Our board of directors has the power to determine that the amendment or elimination of such provision applies to a control share acquisition that occurred prior or subsequent to such amendment or elimination.

*Subtitle 8.* Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its articles of incorporation or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the articles of incorporation or bylaws, to any or all of the following five provisions:

- a classified board;
- a two-thirds stockholder vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the directors;
- a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a requirement that requires the request of the holders of at least a majority of all votes entitled to be cast to call a special meeting of stockholders.

To date, we have not made any of the elections described above, although, independent of these elections, our Articles of Incorporation and Bylaws contain provisions that divide our board of directors into classes prior to the 2022 annual meeting of stockholders as discussed above and special meetings of stockholders are only required to be held upon the request of a majority of the stockholders, that the board has the exclusive power to fix the number of directors, that directors may be removed only for cause and by the vote of two-third of the votes entitled to be cast and that, generally, vacancies may be filled only by our board of directors.

*Amendment of Our Bylaws.* Our board of directors has the power to adopt, alter or repeal any provision of our Bylaws and to make new bylaws. In addition, stockholders may amend our Bylaws by the affirmative vote of the holders of a majority of all votes entitled to be cast on the matter pursuant to a binding proposal submitted by any stockholder.

## Subsidiaries of Franklin Street Properties Corp.

Name	Jurisdiction of Organization
FSP 1001 17th Street LLC	Delaware
FSP 121 South Eighth Street LLC	Delaware
FSP 1441 MS LLC	Delaware
FSP 1999 Broadway LLC	Delaware
FSP 303 EWD LLC	Delaware
FSP 380 Interlocken Corp.	Delaware
FSP 390 Interlocken LLC	Delaware
FSP 4807 Stonecroft Boulevard LLC	Delaware
FSP 4820 Emperor Boulevard LLC	Delaware
FSP 5010 Street LLC	Delaware
FSP 505 Waterford LLC	Delaware
FSP 600 17 <sup>th</sup> Street LLC	Delaware
FSP 801 Marquette Avenue LLC	Delaware
FSP 909 Davis Street LLC	Delaware
FSP 999 Peachtree Street LLC	Delaware
FSP Addison Circle Corp.	Delaware
FSP Addison Circle Limited Partnership	Texas
FSP Addison Circle LLC	Delaware
FSP Blue Lagoon Drive Corp.	Delaware
FSP Blue Lagoon Drive LLC	Delaware
FSP Collins Crossing Corp.	Delaware
FSP Collins Crossing Limited Partnership	Texas
FSP Collins Crossing LLC	Delaware
FSP CPV LLC	Delaware
FSP Dulles Virginia LLC	Delaware
FSP Eldridge Green Corp.	Delaware
FSP Eldridge Green Limited Partnership	Texas
FSP Eldridge Green LLC	Delaware
FSP Emperor Boulevard Limited Partnership	Delaware
FSP Forest Park IV LLC	Delaware
FSP Forest Park IV NC Limited Partnership	North Carolina
FSP GB LLC	Delaware
FSP GN Dallas LLC	Delaware
FSP Greenwood Plaza Corp.	Delaware
FSP Holdings LLC	Delaware
FSP HPI LLC	Delaware
FSP Innsbrook Corp.	Delaware
FSP Interlocken LLC	Delaware
FSP Investments LLC	Massachusetts
FSP Irving Texas LLC	Delaware
FSP Legacy Tennyson Center LLC	Delaware
FSP Liberty Plaza Limited Partnership	Texas
FSP Northwest Point LLC	Delaware
FSP One Legacy Circle LLC	Delaware
FSP One Overton Park LLC	Delaware
FSP One Ravinia Drive LLC	Delaware
FSP Park Ten Development Corp.	Delaware
FSP Park Ten Development LLC	Delaware
FSP Park Ten Limited Partnership	Texas
FSP Park Ten LLC	Delaware
FSP Park Ten Phase II Limited Partnership	Texas
FSP Pershing Park Plaza LLC	Delaware
FSP Plaza Seven LLC	Delaware
FSP Property Management LLC	Massachusetts
FSP Protective TRS Corp.	Massachusetts
FSP REIT Protective Trust	Massachusetts
FSP River Crossing LLC	Delaware
FSP Two Ravinia Drive LLC	Delaware
FSP UC LLC	Delaware
FSP Westchase LLC	Delaware

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-222442) of Franklin Street Properties Corp., and
- (2) Registration Statement (Form S-8 No. 333-91680) pertaining to the 2002 Stock Incentive Plan of Franklin Street Properties Corp.;

of our reports dated February 11, 2020, with respect to the consolidated financial statements and schedules of Franklin Street Properties Corp. and the effectiveness of internal control over financial reporting of Franklin Street Properties Corp., included in this Annual Report (Form 10-K) of Franklin Street Properties Corp. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Boston, Massachusetts  
February 11, 2020

## CERTIFICATIONS

I, George J. Carter, certify that:

1. I have reviewed this Annual Report on Form 10-K of Franklin Street Properties Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2020

/s/ George J. Carter  
George J. Carter  
Chief Executive Officer

CERTIFICATIONS

I, John G. Demeritt, certify that:

1. I have reviewed this Annual Report on Form 10-K of Franklin Street Properties Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2020

/s/ John G. Demeritt  
 John G. Demeritt  
 Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Franklin Street Properties Corp. (the “Company”) for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, George J. Carter, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that, to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: February 11, 2020

/s/ George J. Carter

George J. Carter  
Chief Executive Officer



CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Franklin Street Properties Corp. (the “Company”) for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, John G. Demeritt, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that, to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: February 11, 2020

/s/ John G. Demeritt  
John G. Demeritt  
Chief Financial Officer

## Non-GAAP Financial Measures

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

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

Other real estate companies and the National Association of Real Estate Investment Trusts, or NAREIT may define this term in a different manner. We have included the NAREIT FFO as of May 17, 2016 in the table and note that other REITs may not define FFO in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than we do.

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

The calculations of FFO are shown in the following table:

(in thousands):	For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Net income (loss)	\$ 6,475	\$ 13,069	\$ (15,944)	\$ 8,378	\$ 35,014
(Gain) loss on sale of properties and properties held for sale	-	-	18,481	2,938	(23,662)
Equity in (income) loss from non-consolidated REITs	-	(6,793)	3,604	831	1,451
FFO from non-consolidated REITs	-	2,511	3,173	3,041	2,732
Depreciation and amortization	90,507	93,674	100,227	92,556	91,201
<b>NAREIT FFO</b>	<b>96,982</b>	<b>102,461</b>	<b>109,541</b>	<b>107,744</b>	<b>106,736</b>
Hedge ineffectiveness	-	-	1,878	(1,878)	-
Acquisition costs	560	-	18	479	154
<b>Funds From Operations</b>	<b>\$ 97,542</b>	<b>\$ 102,461</b>	<b>\$ 111,437</b>	<b>\$ 106,345</b>	<b>\$ 106,890</b>
Weighted average number of shares outstanding, basic and diluted	107,233	107,231	107,231	102,843	100,187
<b>Funds From Operations per share</b>	<b>\$ 0.91</b>	<b>\$ 0.96</b>	<b>\$ 1.04</b>	<b>\$ 1.03</b>	<b>\$ 1.07</b>

## Corporate Headquarters

Franklin Street Properties Corp.  
401 Edgewater Place, Suite 200  
Wakefield, MA 01880  
Telephone: 800.950.6288  
www.fspreit.com

## Stock Listing

Franklin Street Properties Corp.'s  
Common Stock trades on the  
NYSE American under the symbol "FSP"

## Transfer Agent

American Stock Transfer  
and Trust Company  
Operations Center  
6201 15th Avenue  
Brooklyn, NY 11219  
Telephone: 800.937.5449  
www.amstock.com

## Outside Counsel

Wilmer Cutler Pickering  
Hale and Dorr LLP  
60 State Street  
Boston, MA 02109  
Telephone: 617.526.6000

## Independent Registered Public Accounting Firm

Ernst & Young LLP  
200 Clarendon Street  
Boston, MA 02116  
Telephone: 617.266.2000

## Investor Relations Contact

Georgia Touma, Director of Investor Relations  
Franklin Street Properties Corp.  
401 Edgewater Place, Suite 200  
Wakefield, MA 01880  
Telephone: 877.686.9496  
investorrelations@fspreit.com

## Annual Meeting Information

Thursday, May 14, 2020  
11:00 a.m., Eastern Time  
Four Points by Sheraton Wakefield  
Boston Hotel & Conference Center  
One Audubon Road  
Wakefield, MA 01880

## Board of Directors

George J. Carter\*  
Chairman and Chief Executive Officer

John N. Burke, CPA  
Chair of the Audit Committee  
Member of the Compensation and  
Nominating and Corporate  
Governance Committees

Brian N. Hansen  
Chair of the Nominating and  
Corporate Governance Committee  
Member of the Audit and  
Compensation Committees

Kenneth A. Hoxsie  
Member of the Audit and  
Nominating and Corporate  
Governance Committees

Dennis J. McGillicuddy  
Member of the Audit Committee

Georgia Murray  
Lead Independent Director  
Chair of the Compensation Committee  
Member of the Audit Committee

Kathryn P. O'Neil  
Member of the Compensation and  
Nominating and Corporate  
Governance Committees

\*Also an Executive Officer  
of the Company

## Executive Officers

Jeffrey B. Carter  
President and Chief Investment Officer

John G. Demeritt  
Executive Vice President,  
Chief Financial Officer and Treasurer

Scott H. Carter  
Executive Vice President,  
General Counsel and Secretary

John F. Donahue  
Executive Vice President  
and President of  
FSP Property Management LLC

Eriel Anchondo  
Executive Vice President and  
Chief Operating Officer





**401 Edgewater Place  
Wakefield, MA 01880**

**P 800.950.6288  
[www.fspreit.com](http://www.fspreit.com)**