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FRANKLIN STREET PARTNERS LP
Form 10-Q/A
December 18, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q/A
Amendment No. 1 to

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period _____ to _____.

Commission File Number: 0-32615

The undersigned hereby amends in its entirety its Quarterly Report on Form 10Q
for the Quarter ended June 30, 2001.

Franklin Street Partners Limited Partnership
(Exact name of registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

04-2724223
(IRS Employer Identification Number)

401 Edgewater Place, Suite 200
Wakefield, MA 01880-6210
(Address of principal executive offices)

Registrant's telephone number (781) 246-4900

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 twelve 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 ninety days.

YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate number of shares outstanding of each of the issuer's classes of common
stock, as of the latest practicable date.

Not applicable

Franklin Street Partners Limited Partnership

Form 10-Q

Quarterly Report
June 30, 2001

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Franklin Street Partners
Limited Partnership and Subsidiaries
Consolidated Balance Sheets

| | | |
|----------------|----------|----------|
| | June 30, | December |
| (in thousands) | 2001 | 2000 |
| ===== | | |
| (Unaudited) | | |

Assets:

Real estate investments, at cost:

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| | | |
|---|-----------|----------|
| Land | \$ 39,614 | \$ 39,99 |
| Buildings and improvements | 153,020 | 152,99 |
| Fixtures and equipment | 995 | 99 |
| | 193,629 | 193,98 |
| Less accumulated depreciation | 15,155 | 12,91 |
| Real estate investments, net | 178,474 | 181,07 |
| Cash and cash equivalents | 22,303 | 13,71 |
| Restricted cash | 515 | 49 |
| Marketable securities | 1,001 | 5,32 |
| Due from related parties | 47 | 16,73 |
| Tenant rent receivables, net of allowance for doubtful accounts of \$210 in 2001 and \$10 in 2000 | 806 | 1,23 |
| Prepaid expenses and other assets | 1,143 | 1,03 |
| Office computers and furniture, net of accumulated depreciation of \$163 in 2001 and \$142 in 2000 | 364 | 30 |
| Total assets | \$204,653 | \$219,92 |
| Liabilities and Partners' Capital | | |
| Liabilities: | | |
| Bank note payable | \$ -- | \$ 16,50 |
| Accounts payable and accrued expenses | 4,999 | 2,28 |
| Tenant security deposits | 515 | 49 |
| Total liabilities | 5,514 | 19,28 |
| Minority interests in consolidated subsidiaries | 52 | 6 |
| Partners ' capital (deficit): | | |
| Limited partners, 23,488,618 in 2001 and 23,486,096 in 2000 units issued and outstanding | 202,633 | 204,06 |
| General partner, 948,499 units issued and outstanding in 2001 and 2000 | (3,546) | (3,48) |
| Total partners ' capital | 199,087 | 200,58 |
| Total liabilities and partners' capital | \$204,653 | \$219,92 |

See accompanying notes to consolidated financial statements.

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| (in thousands, except per partnership unit amounts) | For the Three Months Ended June 30, | |
|---|--|-----------------|
| | 2001 | 2000 |
| Revenues: | | |
| Rental income | \$ 6,831 | \$ 6,562 |
| Investment services income | 6,349 | -- |
| Interest and other income | 316 | 198 |
| Total revenues | 13,496 | 6,760 |
| Expenses: | | |
| Selling, general and administrative | 3,481 | 2,716 |
| Other real estate operating expenses | 2,022 | 1,548 |
| Depreciation and amortization | 1,151 | 1,149 |
| Real estate taxes and insurance | 698 | 650 |
| Interest expense | 209 | 108 |
| Minority interests | 19 | 1,111 |
| Total expenses | 7,580 | 7,282 |
| Net income (loss) | \$ 5,916 | \$ (522) |
| Allocation of net income (loss) to: | | |
| Limited Partners | \$ 5,686 | \$ (493) |
| General Partner | 230 | (29) |
| | \$ 5,916 | \$ (522) |
| Basic and diluted net income (loss) per limited and general partnership unit | \$.24 | \$ (.03) |

See accompanying notes to consolidated financial statements.

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| | Six Months Ended | |
|---|------------------------|-----------|
| | ----- | |
| (in thousands) | June 30, | 2000 |
| | 2001 | 2000 |
| | ===== | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 11,918 | \$ (696) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,424 | 2,230 |
| Partnership units issued as compensation | 29 | 2,300 |
| Gain on sale of land | (11) | (149) |
| Minority interests | 40 | 1,523 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (16) | -- |
| Prepaid expenses | (123) | 130 |
| Tenant rent receivables | 432 | (63) |
| Due from related parties | 187 | (170) |
| Deposits and other assets | (147) | (226) |
| Accounts payable and accrued expenses | 2,718 | (1,250) |
| Tenant security deposits | 16 | -- |
| | ----- | |
| Net cash provided by operating activities | 17,467 | 3,629 |
| | ----- | |
| Cash flow from investing activities: | | |
| Repayment of loans from related party | 16,500 | -- |
| Purchase of property and equipment | (161) | (8,088) |
| Proceeds received on sale of land | 449 | 1,076 |
| Sale of marketable securities | 4,321 | -- |
| | ----- | |
| Net cash provided by (used for) investing activities | 21,109 | (7,012) |
| | ----- | |
| Cash flows from financing activities: | | |
| Cash distributions to partners | (13,440) | (10,737) |
| Cash distributions to minority interest holders | (51) | (30) |
| Net repayments under line of credit facility | (16,500) | (23,522) |
| Capital contributions | -- | 39,829 |
| | ----- | |
| Net cash provided by (used for) financing activities | (29,991) | 5,540 |
| | ----- | |
| Net increase in cash and cash equivalents | 8,585 | 2,157 |
| Cash and cash equivalents, beginning of period | 13,718 | 18,519 |
| | ----- | |
| Cash and cash equivalents, end of period | \$ 22,303 | \$ 20,676 |
| | ===== | |
| Supplemental disclosure of cash flow information: Cash paid for: | | |
| Interest | \$ 394 | \$ 495 |
| Income taxes | \$ -- | \$ -- |

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See accompanying notes to consolidated financial statements.

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Franklin Street Partners Limited Partnership Notes to Consolidated Financial Statements (Unaudited)

Organization and Operations

Franklin Street Partners Limited Partnership (the "Partnership") was formed as a Massachusetts limited partnership on February 4, 1997. The Partnership owns a 99% interest in FSP Investments LLC ("FSP Investments") and a 99% interest in FSP Property Management LLC ("FSP Property Management").

The Partnership operates in two business segments: rental operations and investment services. FSP Investments provides real estate investment and broker/dealer services. FSP Investments' services include: (i) the organization of real estate investment trust ("REIT") entities (the "Sponsored REITs"), which are syndicated through private placements; (ii) the acquisition of real estate on behalf of the Sponsored REITs; and (iii) the sale through best efforts of private placements of preferred stock in Sponsored REITs.

During 1999 and 2000, a total of seventeen limited partnerships (the "Sponsored Partnerships") were merged into the Partnership. The Partnership previously owned a general partner interest in each of the Sponsored Partnerships. The mergers were accounted for as a purchase whereby the assets and liabilities of the acquired Sponsored Partnerships were recorded at their fair value at the date of merger. See the following note on Restatement.

Restatement

The Partnership has restated its previously reported consolidated financial statements for the year ended December 31, 2000, including the previously reported quarterly financial statements, to reflect certain adjustments that were identified during the second quarter of 2001. These non-cash adjustments had the impact of decreasing reported net income for additional depreciation expense and reallocating net income to minority interest holders, and increasing real estate assets. As a result of the restatement, depreciation expense increased approximately \$122,000 and \$245,000 for the three and six months ended March 31, 2001 and June 30, 2001, respectively. Real estate investments, net, total assets, and Partners' equity all increased by \$20.2 million as of June 30, 2001. Minority Interest and Partners' Capital that related to the Partnership's initial accounting treatment for certain merger transactions that occurred in 1999 and 2000 were also adjusted. These mergers were initially recorded similar to a pooling of interests, whereby the assets and liabilities were recorded at their historic book values and transaction costs were charged to expense. During the third quarter of 2001, the Partnership determined that the purchase method of accounting was the appropriate treatment for these mergers. Accordingly, the Partnership has recorded the mergers based on the fair value of assets and liabilities acquired. Additionally, transaction costs incurred in connection with these mergers have been capitalized as a cost of acquisition. The following tables summarize the impact to amounts previously reported:

Six Months Ended
June 30, 2000

In thousands

Previously

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| | Reported ----- | Adjustments ----- | Restated ----- |
|---|-------------------|----------------------|-------------------|
| Total Revenues | \$ 13,164 | \$ -- | \$ 13,164 |
| Total operating expenses | 12,137 | 200 | 12,337 |
| Minority interests | 27 | 1,496 | 1,523 |
| | ----- | ----- | ----- |
| Total expenses | 12,164 | 1,696 | 13,860 |
| Net income (loss) | \$ 1,000 | \$ (1,696) | \$ (696) |
| | ----- | ----- | ----- |
| Net income (loss) per general and limited partnership unit | \$ 0.05 | \$ (0.08) | \$ (0.04) |
| | ----- | ----- | ----- |

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Franklin Street Partners Limited Partnership
Notes to Consolidated Financial Statements
(Unaudited)

Three Months Ended
June 30, 2000

| In thousands | Previously Reported ----- | Adjustments ----- | Restated ----- |
|---|---------------------------------|----------------------|-------------------|
| Total Revenues | \$ 6,760 | \$ -- | \$ 6,760 |
| Total operating expenses | 6,071 | 100 | 6,171 |
| Minority interests | 23 | 1,088 | 1,111 |
| | ----- | ----- | ----- |
| Total expenses | 6,094 | 1,188 | 7,282 |
| Net income (loss) | \$ 666 | \$ (1,188) | \$ (522) |
| | ----- | ----- | ----- |
| Net income (loss) per general and limited partnership unit | \$ 0.03 | \$ (0.06) | \$ (0.03) |
| | ----- | ----- | ----- |

December 31, 2000

| In thousands | Previously Reported ----- | Adjustments ----- | Restated ----- |
|------------------------------|---------------------------------|----------------------|-------------------|
| Real estate investments, net | \$160,631 | \$ 20,440 | \$181,071 |
| Other Assets | 38,852 | -- | 38,852 |
| | ----- | ----- | ----- |
| Total Assets | \$199,483 | \$ 20,440 | \$219,923 |
| | ----- | ----- | ----- |
| Liabilities | \$ 19,280 | \$ -- | \$ 19,280 |

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| | | | |
|--|-----------|-----------|-----------|
| Minority interests | 63 | -- | 63 |
| Partners' equity | 180,140 | 20,440 | 200,580 |
| | ----- | ----- | ----- |
| Total liabilities and partner's equity | \$199,483 | \$ 20,440 | \$219,923 |
| | ----- | ----- | ----- |

Basis of Presentation

The consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain information and footnote disclosures normally included in the Partnership's annual financial statements have been condensed or omitted. The interim financial statements, in the opinion of management, reflect all adjustments necessary for a fair statement of the results for the interim periods ended June 30, 2001 and 2000. These adjustments are of a normal and recurring nature. Operating results for the three and six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2001.

These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2000, which are contained in the Partnership's Form 10, as amended, filed with the Securities and Exchange Commission (the "SEC").

Management's Estimates and Assumptions

The accompanying financial statements were prepared by the Partnership in conformity with generally accepted accounting principles which 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 revenues and expenses during the reported period. The Partnership reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any necessary adjustments prior to their issuance. Actual results could differ from those estimates.

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Franklin Street Partners Limited Partnership Notes to Consolidated Financial Statements (Unaudited)

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities as amended by SFAS No. 137 and No. 138. The provisions of this statement require that derivative instruments be carried at fair value on the balance sheet. The statement continues to allow derivative instruments to be used to hedge various risks and sets forth specific criteria to be used to determine when hedge accounting can be used. For derivative instruments not accounted for as hedges, changes in fair value are required to be recognized in earnings. The provisions of this statement became effective January 1, 2001. The Partnership has adopted these provisions, and the impact on its financial position, results of operations and cash flows is not material.

In June 2001, the FASB approved SFAS No. 141 "Business Combinations" ("SFAS 141") and No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), effective

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July 1, 2001 and January 1, 2002, respectively, for the Partnership. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The Partnership has adopted SFAS 141; however, since June 30, 2001, there were no combinations by the Partnership to which this would apply. Under SFAS 142, amortization of goodwill, including goodwill recorded in past business combinations, will discontinue upon adoption of this standard. In addition, goodwill recorded as a result of business combinations completed during the three-month period ending December 31, 2001 will not be amortized. All goodwill and intangible assets will be tested for impairment in accordance with the provisions of the Statement. The Partnership has reviewed the provisions of SFAS 142 and believes that the impact of adoption will not be material to its financial position, results of operations and cash flows.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This Statement will be effective at the beginning of 2003. The Partnership has reviewed the provisions of SFAS 143 and believes that the impact of adoption will not be material to its financial position, results of operations and cash flows.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement supersedes SFAS No. 121 and requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less costs to sell. SFAS No. 144 retains the fundamental provisions of SFAS 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used, and (b) measurement of long-lived assets to be disposed of by sale, but broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. This Statement will be effective at the beginning of 2002. The Partnership is currently assessing, but has not yet determined the impact of SFAS No. 144 on its financial position or results of operations and cash flows.

Reclassifications

Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentations.

Net Income Per Partnership Unit

The Partnership follows SFAS No. 128 "Earnings per Share", which specifies the computation, presentation and disclosure requirements for the Partnership's net income per partnership unit. Basic net income per unit is computed by dividing net income by the weighted average number of partnership units outstanding during the period. Diluted net income per unit reflects the potential dilution that could occur if securities or other contracts to issue units were exercised or converted into units. There were no potential dilutive units outstanding at June 30, 2001 and 2000.

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Net Income Per Partnership Unit (continued)

The denominator used for calculating basic and diluted net income per unit is as follows:

| | For the Three Months Ended June 30, | | |
|---|--|------------|-----|
| | 2001 | 2000 | |
| Weighted average number of units outstanding: | | | |
| Limited partners | 23,488,618 | 16,281,380 | 23, |
| General partner | 948,499 | 948,499 | |
| | 24,437,117 | 17,229,879 | 24, |

Business Segments

Segment operating results are measured and assessed based on a performance measure known as Funds From Operations ("FFO"). FFO is defined as net income (computed in accordance with generally accepted accounting principles) plus depreciation and amortization and other non-cash expenses. FFO is not a measure of operating results or cash flows from operating activities as measured by generally accepted accounting principles, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity.

FFO by business segment are as follows (in thousands):

| | Rental Operations | Investment Services | Total | Intercomp Eliminati |
|---|----------------------|------------------------|-----------|------------------------|
| For the six months ended June 30 , 2001: | | | | |
| Total revenues | \$ 13,951 | \$ 12,523 | \$ 26,474 | \$ (|
| Total expenses | (7,190) | (7,453) | (14,643) | |
| Depreciation and amortization | 2,421 | 90 | 2,511 | |
| Non-cash expenses | -- | 1,529 | 1,529 | |
| FFO | \$ 9,182 | \$ 6,689 | \$ 15,871 | \$ |
| For the six months ended June 30, 2000: | | | | |
| Total revenues | \$ 13,164 | \$ 6,019 | \$ 19,183 | \$(6, |

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| | | | | |
|-------------------------------|----------|----------|----------|--------|
| Total expenses | (8,863) | (5,865) | (14,728) | |
| Depreciation and amortization | 2,213 | 90 | 2,303 | |
| Non-cash expenses | -- | 2,300 | 2,300 | |
| ----- | | | | |
| FFO | \$ 6,514 | \$ 2,544 | \$ 9,058 | \$ (5, |
| ===== | | | | |

Non-cash expenses of \$1,529,000 and \$2,300,000 for the six months ended June 30, 2001 and 2000, respectively, are comprised of equity-based compensation charges.

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Franklin Street Partners Limited Partnership
Notes to Consolidated Financial Statements
(Unaudited)

Business Segments (continued)

The Partnership's cash distributions from operations are summarized as follows (in thousands, except per partnership unit amounts):

| Quarter Paid | Distribution Per Partnership Unit | Total Cash Distributions |
|------------------------|---|--------------------------------|
| First quarter of 2001 | \$.27 | \$ 6,597 |
| Second quarter of 2001 | .28 | 6,843 |
| | | \$ 13,440 |

Cash distributions per partnership unit is based on the total outstanding units at the end of each calendar quarter. Cash available for distribution, as determined at the sole discretion of the general partner, is required to be distributed to unit holders within 90 days following the end of each calendar quarter. The cash distribution of approximately \$6,597,000 for the fourth quarter of 2000 was declared and paid in the first quarter of 2001. The cash distribution of approximately \$6,843,000 for the first quarter of 2001 was declared and paid in the second quarter 2001.

The following table is a summary of other financial information by business segment (in thousands):

| | Rental Operations | Investment Services | Total |
|----------------------|----------------------|------------------------|-----------|
| June 30, 2001: | | | |
| Capital expenditures | \$ 79 | \$ 82 | \$ 161 |
| Total assets | \$197,920 | \$ 6,733 | \$204,653 |

June 30, 2000:

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Capital expenditures \$ 8,018 \$ 70 \$ 8,088

Subsequent Event

Effective July 1, 2001, a wholly-owned subsidiary of the Partnership purchased the 1% ownership interest in FSP Investments and the 1% ownership interest in FSP Property Management for an aggregate purchase price of approximately \$32,000. As a result of the purchase, there is no longer a minority interest holder in the subsidiaries of the Partnership.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table summarizes property owned by the Partnership:

| | June 30, | |
|---------------------------|-----------|-----------|
| | 2001 | 2000 |
| Residential: | | |
| Number of properties | 4 | 4 |
| Number of apartment units | 642 | 642 |
| Commercial: | | |
| Number of properties | 13 | 13 |
| Square footage | 1,433,300 | 1,433,300 |

Results of Operations

The following table shows the Partnership's financial data as a percentage of total revenues for the three months ended June 30, 2001 and 2000 and for the six months ended June 30, 2001 and 2000 and the variance in dollars between the periods:

| | Financial Data as a Percentage of Total Revenues | | | | Variance in Thousands of Dol | |
|--------------------------------------|---|------|---|------|---|-------------------|
| | For the three months ended June 30, | | For the six months ended June 30, | | For the three months ended June 30, | For mont Ju |
| | 2001 | 2000 | 2001 | 2000 | 2001 and 2000 | 2001 |
| Revenues: | | | | | | |
| Rental income | 51% | 97% | 51% | 97% | \$ 269 | \$ |
| Syndication and commission income | 47 | 0 | 46 | 0 | 6,349 | |
| Interest and other income | 2 | 3 | 3 | 3 | 118 | |
| Total revenues | 100 | 100 | 100 | 100 | 6,736 | |

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Expenses:

| | | | | | |
|--------------------------------------|------|------|------|------|----------|
| Selling, general and administrative | 26 | 40 | 25 | 40 | 765 |
| Other real estate operating expenses | 15 | 23 | 13 | 23 | 474 |
| Depreciation and amortization | 8 | 17 | 9 | 17 | 2 |
| Real estate taxes and insurance | 5 | 10 | 5 | 10 | 48 |
| Interest expense | 2 | 2 | 2 | 4 | 101 |
| Minority interest | 0 | 16 | 0 | 12 | (1,092) |
| | ---- | ---- | ---- | ---- | ----- |
| Total expenses | 56 | 108 | 54 | 106 | 298 |
| | ---- | ---- | ---- | ---- | ----- |
| Net income | 44% | (8)% | 46% | (6)% | \$ 6,438 |
| | ==== | ==== | ==== | ==== | ===== |

The Partnership's net income for the three months ended June 30, 2001 was \$5.9 million reflecting an increase of \$6.4 million over the net loss of \$522 thousand during the comparable period in 2000. The Partnership's net income for the six months ended June 30, 2001 was \$11.9 million reflecting an increase of \$12.6 million over the net loss of \$696 thousand during the comparable period in 2000. The increase in net income during the 2001 periods compared to 2000 resulted primarily from increased investment service income related to the syndication of Sponsored REIT's in 2001.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Revenues

Total revenues during the three months ended June 30, 2001 increased by \$6.7 million or 100% compared to the three months ended June 30, 2000. Total revenues increased \$13.1 million or 99%, to \$26.3 million for the six months ended June 30, 2001, as compared to \$13.2 million for the six months ended June 30, 2000. Income from rental operations was \$13.3 million for the six months ended June 30, 2001 compared to \$12.8 million for the six months ended June 30, 2000.

The increase in rental income of \$559 thousand, or 4.4%, compared to the six months ended June 30, 2000, is attributable to:

- o the acquisition of one commercial property in 2000, which generated revenue for a full year in 2001 compared with a partial year in 2000, resulting in \$300 thousand in additional revenue;
- o the increase in rents for one property of approximately \$425 thousand;
- o the net increase in other rents of about \$305 thousand less vacancies and delinquencies of approximately \$170 thousand;
- o offset by increased delinquencies in one property of approximately \$300 thousand, substantially all of which occurred during the quarter ended June 30, 2001.

The increase in investment services (syndication and commission) income of \$6.3 million and \$12.1 million for the three months and six months ended June 30,

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2001, respectively, compared to the same periods in 2000, is attributable to the syndication of three Sponsored REIT's in 2001. The Partnership syndicated three Sponsored Partnerships during the six months ended June 30, 2000 and generated syndication and commission fees of \$6.0 million; however, these fees are eliminated in the consolidated results.

The increase in interest and other income of \$118 thousand and \$458 thousand for the three months and six months ended June 30, 2001, respectively, compared to the same periods in 2000, is attributable to interest earned on higher cash balances, cash equivalents and marketable securities and higher average yields in 2001 compared to 2000.

Expenses

Total expenses increased \$0.3 million or 4% and \$0.5 million or 4% for the three months and six months ended June 30, 2001, respectively, compared to the same periods in 2000.

The increase in selling, general and administrative expenses of \$1.4 million or 26%, compared to the six months ended June 30, 2000, is attributable to:

- o increased broker commissions and related costs of approximately \$1.7 million;
- o increased professional fees of approximately \$115 thousand;
- o increased other costs of approximately \$120 thousand;
- o offset by decreased payroll and related expenses of approximately \$535 thousand.

The increase in other real estate operating expenses of \$470 thousand or 16%, compared to the six months ended June 30, 2000, is primarily attributable to:

- o an increase in the allowance for bad debts of \$200 thousand, all of which occurred during the quarter ended June 30, 2001; and
- o increased other costs of \$270 thousand.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Expenses (continued)

The increase in depreciation and amortization expenses of \$0.2 million or 9% in 2001 compared to depreciation and amortization expenses for the three months and six months ended June 30, 2000 is primarily attributable to an increase in depreciable assets as a result of the October 2000 merger.

The increase in real estate taxes and insurance expenses of \$72 thousand or 5.4% for the six months ended June 30, 2001, compared to the six months ended June 30, 2000 is primarily attributable to a general increase in real estate taxes.

The decrease in interest expense of \$101 thousand or 20% for the six months ended June 30, 2001, compared to the six months ended June 30, 2000, is primarily attributable to the decrease in outstanding debt balances during 2001 compared to 2000.

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The decrease in minority interest expense of \$1.5 million for the six months ended June 30, 2001 compared to the minority interest for the six months ended June 30, 2000 is primarily attributable to the October 2000 merger.

Liquidity and Capital Resources

Cash and cash equivalents were \$22.3 million and \$13.7 million at June 30, 2001 and December 31, 2000, respectively. This 25.9% increase of \$8.6 million is attributable to \$17.5 million provided by operating activities and \$21.1 million provided by investing activities partially offset by \$30.0 million used by financing activities.

Operating Activities

The Partnership's cash provided by operating activities of \$17.5 million is primarily attributable to:

- o \$14.3 million from operations, after addback of \$2.4 million from non cash expenses, primarily depreciation and amortization;
- o \$2.7 million from the increase in accounts payable and accrued expenses, and
- o \$0.5 million from the net change in other operating assets and liabilities.

Investing Activities

The Partnership's cash provided by investing activities of \$21.1 million is primarily attributable to:

- o \$16.5 million from the proceeds of a loan to a related party;
- o \$4.3 million from the sale of marketable securities; and
- o \$0.3 million provided by the proceeds from the sale of excess land partially offset by the purchase of other property and equipment.

Financing Activities

The Partnership's cash used for financing activities of \$30.0 million is attributable to:

- o \$13.4 million cash distributions to partners;
- o \$16.5 million of net repayments under the line of credit facility.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

In the near term, liquidity is generated from funds from ongoing real estate operations and investment services fees and commissions received in connection with the sale of shares by new Sponsored REITs.

The Partnership maintains an unsecured line of credit through Citizens Bank. The Partnership has entered into a Master Promissory Note and Loan Agreement which provides for a revolving line of credit of up to \$53 million. Borrowings under the loan bear interest at either the bank's base rate or a variable LIBOR rate.

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The Partnership uses the unsecured line of credit to provide each newly-formed Sponsored REIT with the funds to purchase its property. The Partnership loans the purchase price of the property, at an interest rate equivalent to the rate which the Partnership is paying to the bank and takes back a mortgage. The Partnership collects a commitment fee from the Sponsored REIT. The loan is paid back in full from the capital contributions of each Sponsored REIT's investors. The Partnership's loan agreement with the bank includes customary restrictions on property liens and requires compliance with various financial covenants. Financial covenants include maintaining minimum cash balances in operating accounts, tangible net worth of at least \$104 million and compliance with other various debt and income ratios. The Partnership was in compliance with all covenants as of June 30, 2001.

As part of a syndication of a Sponsored REIT, the Partnership entered into an agreement whereby the Partnership agreed to purchase a certain additional property if the owner of the property offered the property for sale. The price of the property ranges from \$15 million to \$22 million based upon a formula. The seller must deliver notice to the Partnership of its intent to sell the property no later than the end of May 2002. In the event that the Partnership is unable to syndicate this property the Partnership would have to borrow under its revolving credit facility.

The Partnership did not have any borrowings under its revolving credit facility as of June 30, 2001.

The Partnership's real properties generate rental income to cover the ordinary, annual operating expenses of the properties and to fund distributions to partners. As of June 30, 2001, the rental income covered the expenses for each of the Partnership's real properties. In addition to rental income, the Partnership maintains cash reserves that may be used to fund extraordinary expenses or major capital expenses. The cash reserves were set aside when the Sponsored Partnerships that the Partnership has acquired were originally syndicated. The cash reserves, included in cash and cash equivalents, as of June 30, 2001 of approximately \$7.2 million are in excess of the known needs for extraordinary expenses or capital improvements for the real properties within the next few years. There are no external restrictions on these reserves, and they may be used for any Partnership purpose.

Although there is no guarantee we will be able to obtain the funds necessary for our future growth, we anticipate generating funds from continuing real estate operations and from fees and commissions from the sale of shares in newly-formed Sponsored REITs. The Partnership believes that it has adequate funds to cover extraordinary expenses and capital improvements, in addition to normal operating expenses.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company was not a party to derivative commodity investments at or during the year ended December 31, 2000 or during the six months ended June 30, 2001. The Company's only other financial instruments (as defined by financial Accounting Standards Board Statement No. 107) are its cash and cash equivalents and marketable securities for which cost approximates market value.

The Company's only indebtedness consists of draws from time to time upon its line of credit. These borrowings bear interest at a variable rate. The Company uses the funds it draws on its line of credit only for the purpose of making interim mortgage loans to Sponsored REITs. These mortgage loans bear interest at the same variable rate payable by the Company under its line of credit.

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Therefore, the Company believes that it has mitigated its interest rate risk with respect to its borrowings.

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PART II - OTHER INFORMATION

- Item 1. Legal Proceedings:
Not applicable.
- Item 2. Changes in Securities:
Not applicable.
- Item 3. Defaults Upon Senior Securities:
Not applicable.
- Item 4. Submission of Matters to a Vote of Security Holders:
Not applicable.
- Item 5. Other Information:
Not applicable.
- Item 6. Exhibits and Reports on Form 8 - K:
(a) Exhibits: None;
(b) Reports on Form 8 - K:
The Partnership did not file any report on Form 8-K with the SEC during the quarter ended June 30, 2001.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Franklin Street Partners Limited Partnership

December 17, 2001

FSP General Partner LLC
its General Partner

By: /s/ George J. Carter

Managing Member and President

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