Cogdell Spencer Inc.
Form 10-Q
May 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission file number 001-32649

COGDELL SPENCER INC.
(Exact name of registrant as specified in its charter)

Maryland	20-3126457
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4401 Barclay Downs Drive, Suite 300 Charlotte, North Carolina	28209
(Address of principal executive offices)	(Zip code)

(704) 940-2900
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filed, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ].
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 42,805,033 shares of common stock, par value $.01 per share, outstanding as of May 3, 2010.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)
(unaudited)

	March 31, 2010	December 31, 2009
Assets		
Real estate properties:		
Land	$33,139	$33,139
Buildings and improvements	548,911	527,985
Less: Accumulated depreciation	(99,544)	(93,247)
Net operating real estate properties	482,506	467,877
Construction in progress	29,401	43,338
Net real estate properties	511,907	511,215
Cash and cash equivalents	18,544	25,914
Restricted cash	3,215	3,060
Tenant and accounts receivable, net of allowance of $2,702 in 2010 and $2,817 in 2009	11,502	12,993
Goodwill	108,683	108,683
Trade names and trademarks	41,240	41,240
Intangible assets, net of accumulated amortization of $44,870 in 2010 and $43,313 in 2009	20,185	21,742
Other assets	24,724	25,599
Other assets - held for sale	2,243	2,217
Total assets	$742,243	$752,663
Liabilities and equity		
Mortgage notes payable	$286,295	$280,892
Revolving credit facility	80,000	80,000
Term loan	50,000	50,000
Accounts payable	9,838	15,293
Billings in excess of costs and estimated earnings on uncompleted contracts	5,353	13,189
Deferred income taxes	15,688	15,993
Other liabilities	47,879	47,312
Other liabilities - held for sale	2,206	2,204
Total liabilities	497,259	504,883
Commitments and contingencies		
Equity:		
Cogdell Spencer Inc. stockholders' equity:		
Preferred stock, $0.01 par value; 50,000 shares authorized, none issued or outstanding	-	-
Common stock, $0.01 par value; 200,000 shares authorized, 42,793 and 42,729 shares issued and outstanding in 2010 and 2009, respectively	428	427
Additional paid-in capital	370,951	370,593
Accumulated other comprehensive loss	(2,868)	(1,861)
Accumulated deficit	(165,314)	(164,321)

Total Cogdell Spencer Inc. stockholders' equity	203,197	204,838
Noncontrolling interests:		
Real estate partnerships	4,437	5,220
Operating partnership	37,350	37,722
Total noncontrolling interests	41,787	42,942
Total equity	244,984	247,780
Total liabilities and equity	$742,243	$752,663

See notes to condensed consolidated financial statements.

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COGDELL SPENCER INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
Revenues:		
Rental revenue	$ 21,245	$ 19,577
Design-Build contract revenue and other sales	35,436	46,390
Property management and other fees	818	850
Development management and other income	103	2,799
Total revenues	57,602	69,616
Expenses:		
Property operating and management	8,198	7,865
Design-Build contracts and development management	24,619	40,165
Selling, general, and administrative	5,820	6,667
Depreciation and amortization	8,085	10,076
Impairment charges	-	120,920
Total expenses	46,722	185,693
Income (loss) from continuing operations before other income (expense) and income tax benefit (expense)	10,880	(116,077)
Other income (expense):		
Interest and other income	160	155
Interest expense	(5,089)	(5,991)
Interest rate derivative expense	(15)	-
Equity in earnings of unconsolidated real estate partnerships	3	6
Total other income (expense)	(4,941)	(5,830)
Income (loss) from continuing operations before income tax benefit (expense)	5,939	(121,907)
Income tax benefit (expense)	(1,726)	19,626
Net income (loss) from continuing operations	4,213	(102,281)
Loss from discontinued operations	(18)	(43)
Net income (loss)	4,195	(102,324)
Net loss (income) attributable to the noncontrolling interest in:		
Real estate partnerships	(311)	(92)
Operating partnership	(598)	32,198
Net income (loss) attributable to Cogdell Spencer Inc.	$ 3,286	$ (70,218)
Per share data - basic and diluted:		
Income (loss) from continuing operations attributable to Cogdell Spencer Inc.	$ 0.08	$ (3.90)
Income (loss) from discontinued operations attributable to Cogdell Spencer Inc.	(0.00)	(0.00)
Net income (loss) per share attributable to Cogdell Spencer Inc.	$ 0.08	$ (3.90)

Weighted average common shares - basic and diluted		42,768		17,995
Net income (loss) attributable to Cogdell Spencer Inc.:				
Income (loss) from continuing operations, net of tax	$	3,301	$	(70,189)
Discontinued operations		(15)		(29)
Net income (loss) attributable to Cogdell Spencer Inc.	$	3,286	$	(70,218)

See notes to condensed consolidated financial statements.

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COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)
(unaudited)

	Total Equity	Comprehensive Income (Loss)	Cogdell Spencer Inc. Stockholders: Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock	Additional Paid-in Capital	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Real Estate Partnerships
Balance at December 31, 2009	$ 247,780		$ (164,321)	$ (1,861)	$ 427	$ 370,593	$ 37,722	$ 5,220
Comprehensive income:								
Net income	4,195	$ 4,195	3,286	-	-	-	598	311
Unealized loss on interest rate swaps, net of tax	(1,464)	(1,464)	-	(1,002)	-	-	(184)	(278)
Comprehensive income	2,731	$ 2,731	-	-	-	-	-	-
Conversion of operating partnership units to common stock	-		-	(5)	-	158	(153)	-
Restricted stock and LTIP unit grants	333		-	-	1	200	132	-
Dividends and distributions	(5,860)		(4,279)	-	-	-	(765)	(816)
Balance at March 31, 2010	$ 244,984		$ (165,314)	$ (2,868)	$ 428	$ 370,951	$ 37,350	$ 4,437

See notes to condensed consolidated financial statements.

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In thousands)
(unaudited)

			Cogdell Spencer Inc. Stockholders					
	Total Equity	Comprehensive Loss	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock	Additional Paid-in Capital	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Real Estate Partnerships
Balance at December 31, 2008	$ 282,994		$ (77,438)	$ (5,106)	$ 177	$ 275,380	$ 85,324	$ 4,657
Comprehensive loss:								
Net income (loss)	(102,324)	$ (102,324)	(70,218)	-	-	-	(32,198)	92
Urealized gain on interest rate swaps, net of tax	(164)	(164)	-	(236)	-	-	(108)	180
Comprehensive loss	(102,488)	$ (102,488)						
Conversion of operating partnership units to common stock	-		-	(464)	18	17,496	(17,050)	-
Restricted stock and LTIP unit grants	817		-	-	-	79	738	-
Amorization of restricted stock grants	25		-	-	-	16	9	-
Dividends and distributions	(6,337)		(4,386)	-	-	-	(1,680)	(271)
Balance at March 31, 2009	$ 175,011		$ (152,042)	$ (5,806)	$ 195	$ 292,971	$ 35,035	$ 4,658

See notes to condensed consolidated financial statements.

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
Operating activities:		
Net income (loss)	$4,195	$(102,324)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization (including amounts in discontinued operations)	8,083	10,111
Amortization of acquired above market leases and acquired below market leases, net (including amounts in discontinued operations)	(110)	(131)
Straight-line rental revenue	(221)	(118)
Amortization of deferred finance costs and debt premium	392	423
Provision for bad debts	(116)	10
Deferred income taxes	(311)	(19,572)
Deferred tax expense on intersegment profits	(165)	(94)
Equity-based compensation	260	842
Equity in earnings of unconsolidated real estate partnerships	(3)	(6)
Change in fair value of interest rate swap agreements	(274)	-
Interest rate derivative expense	15	-
Impairment of goodwill, trade names and trademarks and intangible assets	-	120,920
Changes in operating assets and liabilities:		
Tenant and accounts receivable and other assets	1,695	7,109
Accounts payable and other liabilities	(2,836)	(17,123)
Billings in excess of costs and estimated earnings on uncompleted contracts	(7,836)	2,098
Net cash provided by operating activities	2,768	2,145
Investing activities:		
Investment in real estate properties	(9,393)	(7,048)
Proceeds from sales-type capital lease	76	76
Purchase of corporate property, plant and equipment	(126)	(1,020)
Distributions received from unconsolidated real estate partnerships	4	5
Decrease (increase) in restricted cash	(155)	278
Net cash used in investing activities	(9,594)	(7,709)
Financing activities:		
Proceeds from mortgage notes payable	6,424	3,309
Repayments of mortgage notes payable	(1,031)	(997)
Repayments to revolving credit facility	-	(12,500)
Dividends and distributions	(5,041)	(6,022)
Distributions to noncontrolling interests in real estate partnerships	(816)	(271)
Payment of financing costs	(80)	(223)
Net cash used in financing activities	(544)	(16,704)
Decrease in cash and cash equivalents	(7,370)	(22,268)
Balance at beginning of period	25,914	34,668
Balance at end of period	$18,544	$12,400
Supplemental disclosure of cash flow information:		

Cash paid for interest, net of capitalized interest	$5,289	$5,503
Cash paid for income taxes	$73	$1
Non-cash investing and financing activities:		
Investment in real estate properties included in accounts payable and other liabilities	$1,916	$898
Accrued dividends and distributions	5,057	6,088
Operating Partnership Units converted into common stock	158	17,514

See notes to condensed consolidated financial statements.

COGDELL SPENCER INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Business

Cogdell Spencer Inc., incorporated in Maryland in 2005, together with its subsidiaries (the "Company") is a fully-integrated, self-administered, and self-managed real estate investment trust ("REIT") that invests in specialty office buildings for the medical profession, including medical offices and ambulatory surgery and diagnostic centers. The Company focuses on the ownership, delivery, acquisition, and management of strategically located medical office buildings and other healthcare related facilities in the United States of America. The Company has been built around understanding and addressing the full range of specialized real estate needs of the healthcare industry. The Company operates its business through Cogdell Spencer LP, its operating partnership subsidiary (the "Operating Partnership"), and its subsidiaries. The Company has two segments: (1) Property Operations and (2) Design-Build and Development. Property Operations owns and manages properties and manages properties for third parties. Design-Build and Development provides strategic planning, design, construction, development, and project management services for properties owned by the Company and for third parties.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and represent the assets and liabilities and operating results of the Company. The condensed consolidated financial statements include the Company's accounts, its wholly-owned subsidiaries, as well as the Operating Partnership and its subsidiaries. The condensed consolidated financial statements also include any partnerships for which the Company or its subsidiaries is the general partner or the managing member and the rights of the limited partners do not overcome the presumption of control by the general partner or managing member. The Company reviews its interests in entities to determine if the entity's assets, liabilities, noncontrolling interests and results of activities should be included in the condensed consolidated financial statements in accordance with the GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

Interim Financial Statements

The condensed consolidated financial statements for the three months ended March 31, 2010 and 2009 are unaudited, but include all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the Company's financial position, results of operations, changes in equity and cash flows for such periods. Operating results for the three months ended March 31, 2010 and 2009 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal years of 2010 or 2009 or any other future period. These condensed consolidated financial statements do not include all disclosures required by GAAP for annual consolidated financial statements. The Company's audited consolidated financial statements are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and should be read in conjunction with these interim financial statements.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions are used by management in determining the percentage of completion revenue, construction contingency and loss provisions, useful lives of real estate properties and improvements, the initial valuations and underlying allocations of purchase price in connection with business and real estate property acquisitions, and projected cash flow and fair value estimates used for impairment testing. Actual results may differ from those estimates.

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Concentrations and Credit Risk

The Company maintains its cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation ("FDIC") up to specific limits. Balances on deposit in excess of FDIC limits are uninsured. At March 31, 2010, the Company had bank cash balances of $19.0 million in excess of FDIC insured limits.

Two customers accounted for more than 10% of tenant and accounts receivable at March 31, 2010 and one customer accounted for more than 10% of tenant and accounts receivable at March 31, 2009.

Two customers accounted for more than 10% of revenue for the three months ended March 31, 2010, and one customer accounted for more than 10% of revenue for the three months ended March 31, 2009.

Fair Value

The Company defines fair value 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.

The Company utilizes the GAAP fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Fair values determined by Level 1 inputs utilize observable inputs such as quoted prices in active markets for identical assets or liabilities the Company has the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In instances in which the inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input 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.

To obtain fair values, observable market prices are used if available. In some instances, observable market prices are not readily available for certain financial instruments and fair value is determined using present value or other techniques appropriate for a particular financial instrument. These techniques involve some degree of judgment and as a result are not necessarily indicative of the amounts the Company would realize in a current market exchange. The use of different assumptions or estimation techniques may have a material effect on the estimated fair value amounts.

The Company does not hold or issue financial instruments for trading purposes. The Company considers the carrying amounts of cash and cash equivalents, restricted cash, tenant and accounts receivable, accounts payable, and other liabilities to approximate fair value due to the short maturity of these instruments.

The Company has estimated the fair value of debt utilizing present value techniques taking into consideration current market conditions. At March 31, 2010, the carrying amount and estimated fair value of debt was $416.2 million and $407.9 million, respectively. The Harbison Medical Office Building mortgage included in Other liabilities – held for sale in the accompanying condensed consolidated financial statements in this Form 10-Q has a $2.1 million carrying value and $2.2 million estimated fair value as of March 31, 2010.

See Note 9 of the accompanying condensed consolidated financial statements in this Form 10-Q regarding the fair value of the Company's interest rate swap agreements.

Reclassification

During 2009, the Company reclassified the Harbison Medical Office Building, a wholly-owned real estate property, as discontinued operations and is currently actively marketing the property for sale. The Company expects to sell this property in 2010. Accordingly, the Company has reclassified the assets and liabilities related to this discontinued operations real estate property to Other assets – held for sale and Other liabilities – held for sale, respectively, as well as the results of operations to Loss from discontinued operations in the consolidated statement of operations for the three months ended March 31, 2010 and 2009. The asset is part of the Property Operations segment.

Recent Accounting Pronouncements

In June 2009, the FASB issued an accounting standard, codified in ASC 810, Consolidation, which revises the consolidation guidance for variable-interest entities ("VIE"). The revisions include (1) no longer exempting qualifying special-purpose entities from the scope of the guidance, (2) requiring the continuous reconsideration for determining whether an enterprise is the primary beneficiary of another entity, (3) ignoring kick-out rights unless the rights are held by a single enterprise and (4) requiring consolidation if an entity has power and receives benefits or absorbs losses that are potentially significant to the VIE and not requiring consolidation if power is shared amongst unrelated parties. The revisions also include the enhancement of disclosure requirements. The adoption of this standard had no impact on the Company's balance sheet, statement of operations, or changes in equity on March 31, 2010.

In January 2010, the FASB issued an accounting standard, codified in ASC 810, Consolidation, which provides additional clarification regarding noncontrolling interest decrease-in-ownership provisions and expands the disclosures required upon deconsolidation of a subsidiary. The adoption of this standard had no impact on the Company's balance sheet, statement of operations, or changes in equity on March 31, 2010.

In January 2010, the FASB issued an accounting standard, codified in ASC 820, Fair Value Measurements and Disclosures, which adds new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The standard, with the exception of the additional Level 3 disclosures, is effective for interim and annual reporting periods beginning after November 15, 2009. The adoption of this standard had no impact on the Company's balance sheet, statement of operations, or changes in equity on March 31, 2010. Requirements related to additional Level 3 disclosures will be effective for fiscal years beginning after December 15, 2010. The Company is still evaluating the effect of this standard on the Company's balance sheet, statement of operations, or changes in equity.

In February 2010, the FASB issued additional guidance, codified in ASC 855, Subsequent Events, which includes, among other things, an exemption for SEC filers from the requirement to disclose the date through which subsequent events have been evaluated. The disclosure has been removed from Note 2.

3. Investments in Real Estate Partnerships

As of March 31, 2010, the Company had an ownership interest in eight limited liability companies or limited partnerships.

The following is a description of the unconsolidated entities:

- Cogdell Spencer Medical Partners LLC, a Delaware limited liability company, founded in 2008, has no assets or liabilities, and is 20.0% owned by the Company;
- BSB Health/MOB Limited Partnership No. 2, a Delaware limited partnership, founded in 2002, owns nine medical office buildings, and is 2.0% owned by the Company;
- Shannon Health/MOB Limited Partnership No. 1, a Delaware limited partnership, founded in 2001, owns ten medical office buildings, and is 2.0% owned by the Company; and
- McLeod Medical Partners, LLC, a South Carolina limited liability company, founded in 1982, owns three medical office buildings, and is 1.1% owned by the Company.

The following is a description of the consolidated entities:

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Genesis Property Holdings, LLC, a Florida limited liability company, founded in 2007, owns one medical office building, and is 40.0% owned by the Company;

- Cogdell Health Campus MOB, LP, a Pennsylvania limited partnership, founded in 2006, owns one medical office building, and is 80.9% owned by the Company;

- Mebane Medical Investors, LLC, a North Carolina limited liability company, founded in 2006, owns one medical office building, and is 35.1% owned by the Company; and

- Rocky Mount MOB, LLC, a North Carolina limited liability company, founded in 2002, owns one medical office building, and is 34.5% owned by the Company.

The Company is the general partner or managing member of these real estate partnerships and manages the properties owned by these entities. The Company may receive design/build revenue, development fees, property management fees, leasing fees, and expense reimbursements from these real estate partnerships. For consolidated entities, these revenues and fees are eliminated in consolidation.

The consolidated entities are included in the Company's condensed consolidated financial statements because the limited partners or non-managing members do not have sufficient participation rights in the partnerships to overcome the presumption of control by the Company as the managing member or general partner. The limited partners or non-managing members have certain protective rights such as the ability to prevent the sale of building, the dissolution of the partnership or limited liability company, or the incurrence of additional indebtedness, in each case subject to certain exceptions.

The Company has a 2.0% ownership in Shannon Health/MOB Limited Partnership No. 1 and a 2.0% ownership in BSB Health/MOB Limited Partnership No. 2. The partnership agreements and tenant leases of the limited partners are designed to give preferential treatment to the limited partners as to the operating cash flows from the partnerships. The Company, as the general partner, does not generally participate in the operating cash flows from these entities other than to receive property management fees. The limited partners can remove the Company as the property manager and as the general partner. Due to the structures of the partnership agreements and tenant lease agreements, the Company reports the properties owned by these two joint ventures as fee managed properties owned by third parties.

The Company's unconsolidated entities are accounted for under the equity method of accounting based on the Company's ability to exercise significant influence as the entity's managing member or general partner. The following is a summary of financial information for the limited liability companies and limited partnerships for the periods indicated. The summary of financial information set forth below reflects the financial position and operations of the unconsolidated real estate partnerships in their entirety, not just the Company's interest in the entities (in thousands):

	March 31, 2010	December 31, 2009
Financial position:		
Total assets	$ 54,970	$ 54,725
Total liabilities	48,564	48,672
Member's equity	6,406	6,053

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
Results of operations:		
Total revenues	$ 3,129	$ 3,068
Operating and general and administrative expenses	1,462	1,376
Net income	272	235

4. Business Segments

The Company has two identified reportable segments: (1) Property Operations and (2) Design-Build and Development. The Company defines business segments by their distinct customer base and service provided. Each segment operates under a separate management group and produces discrete financial information, which is reviewed by the chief operating decision maker to make resource allocation decisions and assess performance. Inter-segment sales and transfers are accounted for as if the sales and transfers were made to third parties, which involve applying a negotiated fee onto the costs of the services performed. All inter-company balances and transactions are eliminated during the consolidation process.

The Company's management evaluates the operating performance of its operating segments based on funds from operations ("FFO") and funds from operations modified ("FFOM"). FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT"), represents net income (computed in accordance with GAAP), excluding gains from sales of property, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. The Company adjusts the NAREIT definition to add back noncontrolling interests in real estate partnerships before real estate related depreciation and amortization. FFOM adds back to FFO non-cash amortization of non-real estate related intangible assets associated with purchase accounting. The Company considers FFO and FFOM important supplemental measures of the Company's operational performance. The Company believes FFO is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. The Company believes that FFOM allows securities analysts, investors and other interested parties in evaluating current period results to results prior to the Erdman transaction. FFO and FFOM are intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO and FFOM exclude depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. The Company's methodology may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO and FFOM do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties.

The following tables represent the segment information for the three months ended March 31, 2010 (in thousands):

	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	$21,268	$ -	$ (23)	$-	$21,245
Design-Build contract revenue and other sales	-	39,200	(3,764)	-	35,436
Property management and other fees	818	-	-	-	818
Development management and other income	-	886	(783)	-	103
Total revenues	22,086	40,086	(4,570)	-	57,602
Certain operating expenses:					
Property operating and management	8,198	-	-	-	8,198
Design-Build contracts and development management	-	28,648	(4,029)	-	24,619
Selling, general, and administrative	-	3,889	(23)	-	3,866
Total certain operating expenses	8,198	32,537	(4,052)	-	36,683
	13,888	7,549	(518)	-	20,919
Interest and other income	146	3	-	11	160
Corporate general and administrative expenses	-	-	-	(1,954)	(1,954)
Interest expense	-	-	-	(5,089)	(5,089)
Interest rate derivative expense	-	-	-	(15)	(15)
Provision for income taxes applicable to funds from operations modified	-	-	-	(1,965)	(1,965)
Non-real estate related depreciation and amortization	-	(219)	-	(60)	(279)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	6	-	-	-	6
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(616)	-	-	-	(616)
Discontinued operations	16	-	-	(34)	(18)
Funds from operations modified (FFOM)	13,440	7,333	(518)	(9,106)	11,149
Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)	(570)	-	239	(373)
Funds from operations (FFO)	13,398	6,763	(518)	(8,867)	10,776
Real estate related depreciation and amortization	(7,197)	-	-	-	(7,197)
Noncontrolling interests in real estate partnerships, before real estate related	616	-	-	-	616

depreciation and amortization					
Net income (loss)	6,817	6,763	(518)	(8,867)	4,195
Net loss attributable to the noncontrolling interest in:					
Real estate partnerships	(311)	-	-	-	(311)
Operating partnership	-	-	-	(598)	(598)
Net income (loss) attributable to Cogdell Spencer Inc.	$6,506	$ 6,763	$ (518)	$(9,465)	$3,286
Total assets	$554,138	$ 187,710	$ -	$395	$742,243

The following tables represent the segment information for the three months ended March 31, 2009 (in thousands):

	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	$ 19,600	$ -	$ (23)	$ -	$ 19,577
Design-Build contract revenue and other sales	-	51,161	(4,771)	-	46,390
Property management and other fees	850	-	-	-	850
Development management and other income	-	3,634	(835)	-	2,799
Total revenues	20,450	54,795	(5,629)	-	69,616
Certain operating expenses:					
Property operating and management	7,865	-	-	-	7,865
Design-Build contracts and development management	-	45,119	(4,954)	-	40,165
Selling, general, and administrative	-	4,537	(23)	-	4,514
Impairment charges	-	120,920	-	-	120,920
Total certain operating expenses	7,865	170,576	(4,977)	-	173,464
	12,585	(115,781)	(652)	-	(103,848)
Interest and other income	141	1	-	13	155
Corporate general and administrative expenses	-	-	-	(2,153)	(2,153)
Interest expense	-	-	-	(5,991)	(5,991)
Benefit from income taxes applicable to funds from operations modified	-	-	-	18,642	18,642
Non-real estate related depreciation and amortization	-	(193)	-	(54)	(247)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	9	-	-	-	9
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(245)	-	-	-	(245)
Discontinued operations	26	-	-	(34)	(8)
Funds from operations modified (FFOM)	12,516	(115,973)	(652)	10,423	(93,686)
	(42)	(2,482)	-	984	(1,540)

Amortization of intangibles related to purchase accounting, net of income tax benefit					
Funds from operations (FFO)	12,474	(118,455)	(652)	11,407	(95,226)
Real estate related depreciation and amortization	(7,343)	-	-	-	(7,343)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	245	-	-	-	245
Net income (loss)	5,376	(118,455)	(652)	11,407	(102,324)
Net loss (income) attributable to the noncontrolling interest in:					
Real estate partnerships	(92)	-	-	-	(92)
Operating partnership	-	-	-		