

Cogdell Spencer Inc.
Form 10-Q
November 08, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

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

**For the quarterly period ended September 30, 2011
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
(State or other jurisdiction of
incorporation or organization)

20-3126457
(I.R.S. Employer
Identification No.)

**4401 Barclay Downs Drive, Suite 300
Charlotte, North Carolina**
(Address of principal executive offices)

28209
(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 ☒ 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 filer, 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 ☒ 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 ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 51,122,100 shares of common stock, par value \$.01 per share, outstanding as of November 2, 2011.

TABLE OF CONTENTS

	Page
 <u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1 Financial Statements</u>	3
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4 Controls and Procedures</u>	39
 <u>PART II Other Information</u>	
<u>Item 1 Legal Proceedings</u>	39
<u>Item 1A Risk Factors</u>	39
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3 Defaults Upon Senior Securities</u>	39
<u>Item 4 Removed and Reserved</u>	39
<u>Item 5 Other Information</u>	39
<u>Item 6 Exhibits</u>	39
<u>Exhibit 10.1</u>	
<u>Exhibit 10.2</u>	
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)
(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Real estate properties:		
Land	\$ 44,963	\$ 37,269
Buildings and improvements	664,128	597,022
Less: Accumulated depreciation	(139,212)	(119,141)
Net operating real estate properties	569,879	515,150
Construction in progress	31,546	22,243
Net real estate properties	601,425	537,393
Cash and cash equivalents	16,033	12,203
Restricted cash	2,952	6,794
Tenant and accounts receivable, net of allowance of \$3,140 in 2011 and \$3,010 in 2010	14,831	11,383
Goodwill	22,882	22,882
Intangible assets, net of accumulated amortization of \$52,688 in 2011 and \$49,287 in 2010	20,943	18,601
Other assets	30,718	23,684
Total assets	\$ 709,784	\$ 632,940
Liabilities and equity		
Mortgage notes payable	\$ 271,454	\$ 317,303
Term loan	80,800	
Revolving credit facility	82,000	45,000
Accounts payable	15,782	11,368
Billings in excess of costs and estimated earnings on uncompleted contracts	1,284	1,930
Other liabilities	60,886	39,819
Total liabilities	512,206	415,420
Commitments and contingencies		
Equity:		
Cogdell Spencer Inc. stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000 shares authorized:		
8.5000% Series A Cumulative Redeemable Perpetual Preferred Shares (liquidation preference \$25.00 per share), 2,940 and 2,600 shares issued and outstanding in 2011 and 2010, respectively	73,500	65,000
Common stock, \$0.01 par value; 200,000 shares authorized, 51,080 and 50,870 shares issued and outstanding in 2011 and 2010, respectively	511	509

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Additional paid-in capital	419,564	417,960
Accumulated other comprehensive loss	(5,852)	(3,339)
Accumulated deficit	(312,939)	(287,798)
Total Cogdell Spencer Inc. stockholders' equity	174,784	192,332
Noncontrolling interests:		
Real estate partnerships	8,057	6,452
Operating partnership	14,737	18,736
Total noncontrolling interests	22,794	25,188
Total equity	197,578	217,520
Total liabilities and equity	\$ 709,784	\$ 632,940

See notes to condensed consolidated financial statements.

Table of Contents

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2011	2010	2011	2010
Revenues:				
Rental revenue	\$ 24,762	\$ 22,765	\$ 70,952	\$ 65,004
Design-Build contract revenue and other sales	21,619	15,734	54,500	66,406
Property management and other fees	789	809	2,325	2,388
Development management and other income	7	1	122	122
Total revenues	47,177	39,309	127,899	133,920
Expenses:				
Property operating and management	10,069	9,067	29,180	25,652
Design-Build contracts and development management	18,567	13,806	47,557	49,832
Selling, general, and administrative	5,198	6,684	18,227	21,850
Depreciation and amortization	8,623	8,293	24,439	24,558
Impairment charges				13,635
Total expenses	42,457	37,850	119,403	135,527
Income (loss) from continuing operations before other income (expense) and income tax benefit (expense)	4,720	1,459	8,496	(1,607)
Other income (expense):				
Interest and other income	641	151	978	446
Interest expense	(5,564)	(5,851)	(15,441)	(16,332)
Interest rate derivative expense		(7)		(32)
Equity in earnings of unconsolidated real estate partnerships	(1)	3	11	5
Total other income (expense)	(4,924)	(5,704)	(14,452)	(15,913)
Loss from continuing operations before income tax benefit (expense)	(204)	(4,245)	(5,956)	(17,520)
Income tax benefit (expense)	(32)	2,294	(69)	5,741
Net loss from continuing operations	(236)	(1,951)	(6,025)	(11,779)
Discontinued operations:				
Income from discontinued operations				6
Gain on sale of discontinued operations				264
Total discontinued operations				270

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Net loss	(236)	(1,951)	(6,025)	(11,509)
Net income attributable to the noncontrolling interest in real estate partnerships	(290)	(172)	(725)	(660)
Net loss attributable to the noncontrolling interest in operating partnership	254	285	1,486	1,595
Dividends on preferred stock	(1,562)		(4,686)	
Net loss attributable to Cogdell Spencer Inc. common stockholders	\$ (1,834)	\$ (1,838)	\$ (9,950)	\$ (10,574)
Per share data basic and diluted:				
Loss from continuing operations attributable to Cogdell Spencer Inc. common stockholders	\$ (0.04)	\$ (0.04)	\$ (0.19)	\$ (0.24)
Income from discontinued operations attributable to Cogdell Spencer Inc. common stockholders				0.01
Net loss per share attributable to Cogdell Spencer Inc. common stockholders	\$ (0.04)	\$ (0.04)	\$ (0.19)	\$ (0.23)
Weighted average common shares basic and diluted	51,080	50,083	51,049	46,348
Net loss attributable to Cogdell Spencer Inc. common stockholders:				
Continuing operations, net of tax	\$ (1,834)	\$ (1,838)	\$ (9,950)	\$ (10,805)
Discontinued operations				231
Net loss attributable to Cogdell Spencer Inc. common stockholders	\$ (1,834)	\$ (1,838)	\$ (9,950)	\$ (10,574)

See notes to condensed consolidated financial statements.

(unaudited)

Series A

Noncontrolling

Interests **Interests**

Other Redeemable

Additional

nal in

in

Total Comprehensive	Accumulated Comprehensive	Perpetual Common	Paid-in Operating	Estate
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Preferred

Equity	Loss	Deficit	Loss	Shares	Stock	Capital	Partnership	Partnerships
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noncontrolling

\$ 6,452

725

(959)

\$ (9,818)

(296)

(485)

549

134

(15,191)

(4,686)

(520)

interests
Contributed
equity in real
estate
partnership

3,381

1,022

2,359

**Balance at
September 30,
2011**

\$ 197,578

\$ (312,939) \$ (5,852) \$ 73,500 \$ 511 \$ 419,564 \$ 14,737 \$ 8,057

See notes to condensed consolidated financial statements.

Table of Contents

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)

(unaudited)

	Cogdell Spencer Inc. Stockholders					Noncontrolling	Noncontrolling
	Accumulated		Other		Additional	Interests	Interests
	Total	Comprehensive	Accumulated	Comprehensive	Common	Operating	in Real
	Equity	Loss	Deficit	Loss	Stock	Partnership	Estate
Balance at December 31, 2009	\$ 247,780		\$ (164,321)	\$ (1,861)	\$ 427	\$ 37,722	\$ 5,220
Comprehensive income (loss):							
Net income (loss)	(11,509)	\$ (11,509)	(10,574)			(1,595)	660
Unrealized loss on interest rate swaps, net of tax	(6,076)	(6,076)		(4,099)		(666)	(1,311)
Comprehensive loss	(17,585)	\$ (17,585)					
Issuance of common stock, net of costs	47,616				72	47,544	
Redemption of operating partnership units	(133)			(4)		(39)	(90)
Conversion of operating partnership units to common stock				(47)	2	1,147	(1,102)
Issuance of limited partnership interests in real estate partnership	2,376						2,376
Restricted stock and LTIP unit grants	1,465				6	194	1,265
Dividends on common stock	(14,324)		(14,324)				
Distributions to noncontrolling interests	(3,581)					(2,296)	(1,285)

**Balance at
September 30,
2010**

\$ 263,614 \$ (189,219) \$ (6,011) \$ 507 \$ 419,439 \$ 33,238 \$ 5,660

See notes to condensed consolidated financial statements.

Table of Contents

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

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Operating activities:		
Net loss	\$ (6,025)	\$ (11,509)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	24,439	24,558
Amortization of acquired above market leases and acquired below market leases, net	(313)	(330)
Straight-line rental revenue	(1,386)	(776)
Amortization of deferred finance costs and debt premium	1,247	1,164
Provision for bad debts	130	(116)
Deferred income taxes		(4,873)
Deferred tax expense on intersegment profits	54	(1,342)
Equity-based compensation	911	1,160
Equity in earnings of unconsolidated real estate partnerships	(11)	(5)
Change in fair value of interest rate swap agreements		(670)
Debt extinguishment and interest rate derivative expense		32
Gain on sale of real estate property		(264)
Impairment of goodwill, trade names and trademarks and intangible assets		13,635
Changes in operating assets and liabilities:		
Tenant and accounts receivable and other assets	(6,871)	4,110
Accounts payable and other liabilities	19,526	282
Billings in excess of costs and estimated earnings on uncompleted contracts	(646)	(11,044)
Net cash provided by operating activities	31,055	14,012
Investing activities:		
Investment in real estate properties	(87,503)	(32,825)
Proceeds from sales-type capital lease	229	229
Proceeds from disposal of discontinued operations		2,481
Purchase of corporate property, plant and equipment	(732)	(323)
Distributions received from unconsolidated real estate partnerships	7	7
Decrease (increase) in restricted cash	3,842	(8,589)
Net cash used in investing activities	(84,157)	(39,020)
Financing activities:		
Proceeds from mortgage notes payable	16,373	20,650
Repayments of mortgage notes payable	(62,203)	(22,622)
Proceeds from term loan	80,800	
Proceeds from revolving credit facility	61,513	14,000
Repayments to revolving credit facility	(24,513)	(29,000)
Net proceeds from sale of common stock		47,616
Net proceeds from sale of preferred stock	8,204	
Redemptions of non-controlling interests in operating partnership		(133)

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Dividends on common stock	(15,120)		(13,663)
Dividends on preferred stock	(4,356)		
Distributions to noncontrolling interests in Operating Partnership	(2,194)		(2,224)
Distributions to noncontrolling interests in real estate partnerships	(520)		(1,285)
Equity contributions by partners in consolidated real estate partnerships	3,381		2,376
Payment of financing costs	(4,433)		(591)
Net cash provided by financing activities	56,932		15,124
Increase (decrease) in cash and cash equivalents	3,830		(9,884)
Balance at beginning of period	12,203		25,914
Balance at end of period	\$ 16,033	\$	16,030
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest	\$ 15,150	\$	16,501
Cash paid for income taxes	\$	\$	73
Non-cash investing and financing activities:			
Investment in real estate properties included in accounts payable and other liabilities	\$ 1,351	\$	507
Mortgage note payable assumed with purchase of real estate property			15,580
Accrued dividends and distributions	6,448		5,839
Operating Partnership Units converted into common stock	485		1,149
Equity-based compensation capitalized in real estate properties	149		305

Table of Contents

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

1. Business

Cogdell Spencer Inc., incorporated in Maryland in 2005, together with its consolidated subsidiaries, is a real estate investment trust (REIT) focused on planning, owning, developing, constructing, and managing healthcare facilities. Through strategically managed, customized facilities, we help our customers deliver superior healthcare. We operate our business through Cogdell Spencer LP, our operating partnership subsidiary (the Operating Partnership), and our subsidiaries. All references to we, us, our, the Company, and Cogdell Spencer refer to Cogdell Spencer Inc. and other consolidated subsidiaries, including the Operating Partnership.

We have two segments: (1) Property Operations and (2) Design-Build and Development. Property Operations owns and manages our 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 our assets and liabilities and operating results. The condensed consolidated financial statements include our accounts and our wholly-owned subsidiaries as well as our Operating Partnership and its subsidiaries. The condensed consolidated financial statements also include any partnerships for which we or our subsidiaries are 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. We review our interests in entities to determine if the entity's assets, liabilities, noncontrolling interests and results of activities should be included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation.

Interim Financial Statements

The condensed consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 are unaudited, but include all adjustments consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in equity and cash flows for such periods. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year of 2011 or any other future period. These condensed consolidated financial statements do not include all disclosures required by GAAP for annual consolidated financial statements. Our audited consolidated financial statements are contained in our Annual Report on Form 10-K for the year ended December 31, 2010 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 us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions used include determining the useful lives of real estate properties and improvements, initial valuations and underlying allocations of the purchase price in connection with business and real estate property acquisitions, percentage of completion revenue, construction contingencies and loss provisions, deferred tax asset valuation allowance, and projected cash flows and fair value estimates used for impairment testing. Actual results may differ from those estimates.

Concentrations and Credit Risk

We maintain our 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 September 30, 2011, we had bank cash balances of \$3.4 million in excess of FDIC insured limits.

Table of Contents

The following tables show our concentration of tenant and accounts receivable and tenant and customer revenues for the periods shown:

	As of September 30, 2011		As of December 31, 2010	
Customer balances greater than 10% of tenants and accounts receivable	Three		One	
	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
Customer revenues greater than 10% of total revenue	One	One	One	One

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for certain assets or paid to transfer certain liabilities (an exit price) in the principal or most advantageous market for the certain asset or liability in an orderly transaction between market participants on the measurement date.

We utilize the 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 we have 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. Our 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 we 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.

We do not hold or issue financial instruments for trading purposes. We consider 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. We have estimated the fair value of debt utilizing present value techniques taking into consideration current market conditions. At September 30, 2011, the carrying amount and estimated fair value of debt was \$434.3 million and \$456.4 million, respectively. At December 31, 2010, the carrying amount and estimated fair value of debt was \$362.3 million and \$366.3 million, respectively.

See Note 7 and Note 9 of these condensed consolidated financial statements regarding the fair value of goodwill and intangible assets and the fair value of our interest rate swap agreements, respectively.

New Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update, codified in Accounting Standards Codification (ASC) 820, Fair Value Measurement, which increases the disclosures around assets and liabilities measured at fair value. Entities will be required to disclose any significant transfers between Levels 1 and 2 of the fair value hierarchy, provide additional quantitative and qualitative information regarding fair value measurements categorized as Level 3 of the fair value hierarchy, and include the hierarchy classification for

items whose fair value is not recorded on their consolidated balance sheets but are disclosed in their notes. This will become effective for fiscal years beginning after December 15, 2011.

Table of Contents

In June 2011, the FASB issued an accounting standard update, codified in ASC 220, Comprehensive Income, which changes the presentation of comprehensive income. Entities will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This will become effective for fiscal years beginning after December 15, 2011.

In September 2011, the FASB issued an accounting standards update, codified in ASC 350, Intangibles-Goodwill and Other. While this amendment does not change the calculation of goodwill impairment, it simplifies how companies test goodwill for impairment. Under this amendment, a company would be permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the fair value of a reporting unit is more than the carrying account, it is not necessary to perform the two-step goodwill impairment test described in ASC 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. This will become effective for fiscal years beginning after December 15, 2011.

3. Investments in Real Estate Partnerships

We have ownership interests in multiple limited liability companies and limited partnerships. The following is a description of those interests as of September 30, 2011:

Real Estate Entity	Entity Holdings	Year Founded	Our Ownership
Consolidated			
Anchor Cogdell, LLC	three properties	2011	98.3%
Bonney Lake MOB Investors, LLC	one property	2009	61.7%
West Tennessee Investors MOB, LLC	one property	2008	50.5%
Genesis Property Holdings, LLC	one property	2007	40.0%
Cogdell Health Campus MOB, LP	one property	2006	80.9%
Mebane Medical Investors, LLC	one property	2006	35.1%
Rocky Mount MOB, LLC	one property	2002	34.5%

Unconsolidated

Cogdell Spencer Medical Partners LLC	no assets or liabilities	2008	20.0%
BSB Health/MOB Limited Partnership No. 2	nine properties	2002	2.0%
Shannon Health/MOB Limited Partnership No. 1	ten properties	2001	2.0%
McLeod Medical Partners, LLC	three properties	1982	1.1%

In August 2011, we sold 49.5% of our 100% equity interest in West Tennessee Investors, LLC for \$3.1 million. At September 30, 2011, we owned 50.5% of the membership interests and the entity and its one property are now accounted for as a consolidated real estate partnership. In association with this transaction, additional paid in capital within the Consolidated Statement of Changes in Equity increased \$1.0 million.

We are the general partner or managing member for all of the limited liability companies and limited partnerships listed above. We also manage the properties owned by these entities and may receive property management fees, leasing fees, expense reimbursements, design-build revenue, and development fees from them in the course of our day-to-day operations. For the entities that we consolidate, those revenues and the corresponding expenses are eliminated in our consolidated financial statements.

The consolidated entities are included in our consolidated financial statements because the limited partners or non-managing members do not have sufficient participation rights in the entities to overcome the presumption of

control by us as the general partner or managing member. The limited partners or non-managing members may 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.

We have a 2.0% ownership in BSB Health/MOB Limited Partnership No. 2 and a 2.0% ownership in Shannon Health/MOB Limited Partnership No. 1. For both real estate entities, 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. We, as the general partner, do not generally participate in the operating cash flows from these entities other than to receive property management fees. The limited partners can remove us as the property manager and as the general partner. Due to the structures of the partnership agreements and tenant lease agreements, we report the properties owned by these two joint ventures as fee managed properties owned by third parties.

Table of Contents

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

	As of September 30, 2011	As of December 31, 2010
Financial position:		
Total assets	\$ 54,453	\$ 53,755
Total liabilities	47,408	47,272
Member's equity	7,045	6,483

	For the Three Months Ended September 30, 2011	September 30, 2010	For the Nine Months Ended September 30, 2011	September 30, 2010
Results of operations:				
Total revenues	\$ 3,095	\$ 3,128	\$ 9,525	\$ 9,335
Operating and general and administrative expenses	1,626	1,523	4,567	4,382
Net income (loss)	(17)	89	714	571

4. Acquisitions

In the nine months ended September 30, 2011, we acquired three buildings totaling approximately 213,000 net rentable square feet for a total approximate investment of \$41.0 million. The following table is an allocation of the purchase price for those acquisitions (in thousands):

Land	\$ 4,418
Building and improvements	32,101
Acquired in place lease value and deferred leasing costs	4,476
Acquired above market leases	912
Acquired below market leases	(1,312)
Acquired below market ground lease	355
Total purchase price allocated	\$ 40,950

5. Business Segments

We have two identified reportable segments: (1) Property Operations and (2) Design-Build and Development. We define 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.

We evaluate the operating performance of our 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. To calculate FFOM, we adjust the NAREIT definition to add back noncontrolling interests in real estate partnerships and limited liability companies before real estate related

depreciation and amortization, acquisition-related costs, and dividends on preferred stock. FFOM also adds back to FFO non-cash amortization of non-real estate related intangible assets associated with purchase accounting. We consider FFO and FFOM important supplemental measures of our operational performance. We believe 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. We believe that FFOM assists securities analysts, investors and other interested parties in evaluating current period results to results prior to our 2008 acquisition of our Design-Build segment. FFO and FFOM are intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assume that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because each of FFO and FFOM exclude depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, each 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. Our 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.

Table of Contents

The following tables represent the segment information for the three and nine months ended September 30, 2011 and 2010:

	Property	Design-Build and	Intersegment	Unallocated and	
Three months ended September 30, 2011	Operations	Development	Eliminations	Other	Total
Revenues:					
Rental revenue	\$ 24,762	\$	\$	\$	\$ 24,762
Design-Build contract revenue and other sales		34,072	(12,453)		21,619
Property management and other fees	789				789
Development management and other income		288	(281)		7
Total revenues	25,551	34,360	(12,734)		47,177
Certain operating expenses:					
Property operating and management	10,046				10,046
Design-Build contracts and development management		31,135	(12,568)		18,567
Selling, general, and administrative		3,110			3,110
Total certain operating expenses	10,046	34,245	(12,568)		31,723
	15,505	115	(166)		15,454
Interest and other income	136	500		5	641
Corporate general and administrative expenses				(2,088)	(2,088)
Interest expense				(5,564)	(5,564)
Income tax expense applicable to funds from operations modified				(32)	(32)
Non-real estate related depreciation and amortization		(270)		(45)	(315)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	1				1
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(677)				(677)
Dividends on preferred stock				(1,562)	(1,562)
Funds from operations modified (FFOM)	14,965	345	(166)	(9,286)	5,858
Amortization of intangibles related to purchase accounting	(42)	(189)			(231)
Funds from operations (FFO)	14,923	156	(166)	(9,286)	5,627

Real estate related depreciation and amortization	(8,079)					(8,079)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	677					677
Acquisition-related expenses	(23)					(23)
Dividends on preferred stock					1,562	1,562
Net income (loss)	\$ 7,498	\$ 156	\$ (166)	\$ (7,724)	\$ (236)	
Total assets	\$ 650,083	\$ 59,390	\$	\$ 311	\$ 709,784	

Table of Contents

Three months ended September 30, 2010	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	\$ 22,788	\$	\$ (23)	\$	\$ 22,765
Design-Build contract revenue and other sales		18,927	(3,193)		15,734
Property management and other fees	809				809
Development management and other income		2,290	(2,289)		1
Total revenues	23,597	21,217	(5,505)		39,309
Certain operating expenses:					
Property operating and management	9,067				9,067
Design-Build contracts and development management		18,965	(5,159)		13,806
Selling, general, and administrative		4,226	(23)		4,203
Total certain operating expenses	9,067	23,191	(5,182)		27,076
	14,530	(1,974)	(323)		12,233
Interest and other income	145			6	151
Corporate general and administrative expenses				(2,481)	(2,481)
Interest expense				(5,851)	(5,851)
Interest rate derivative expense				(7)	(7)
Benefit from income taxes applicable to funds from operations modified				2,055	2,055
Non-real estate related depreciation and amortization		(247)		(61)	(308)
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	(476)				(476)
Funds from operations modified (FFOM)	14,205	(2,221)	(323)	(6,339)	5,322
Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)	(571)		239	(374)
Funds from operations (FFO)	14,163	(2,792)	(323)	(6,100)	4,948

Real estate related depreciation and amortization	(7,375)					(7,375)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	476					476
Net income (loss)	\$ 7,264	\$ (2,792)	\$ (323)	\$ (6,100)	\$ (1,951)	
Total assets	\$ 592,538	\$ 159,767	\$	\$ 366	\$ 752,671	

Table of Contents

Nine months ended September 30, 2011	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	\$ 70,952	\$	\$	\$	\$ 70,952
Design-Build contract revenue and other sales		89,598	(35,098)		54,500
Property management and other fees	2,325				2,325
Development management and other income		1,738	(1,616)		122
Total revenues	73,277	91,336	(36,714)		127,899
Certain operating expenses:					
Property operating and management	28,675				28,675
Design-Build contracts and development management		82,631	(35,074)		47,557
Selling, general, and administrative		11,772			11,772
Total certain operating expenses	28,675	94,403	(35,074)		88,004
	44,602	(3,067)	(1,640)		39,895
Interest and other income	444	516		18	978
Corporate general and administrative expenses				(6,455)	(6,455)
Interest expense				(15,441)	(15,441)
Income tax expense applicable to funds from operations modified				(69)	(69)
Non-real estate related depreciation and amortization		(825)		(132)	(957)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	19				19
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(1,681)				(1,681)
Dividends on preferred stock				(4,686)	(4,686)
Funds from operations modified (FFOM)	43,384	(3,376)	(1,640)	(26,765)	11,603
Amortization of intangibles related to purchase accounting	(127)	(567)			(694)
Funds from operations (FFO)	43,257	(3,943)	(1,640)	(26,765)	10,909
Real estate related depreciation and amortization	(22,796)				(22,796)

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Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	1,681					1,681
Acquisition-related expenses	(505)					(505)
Dividends on preferred stock				4,686		4,686
Net income (loss)	\$ 21,637	\$ (3,943)	\$ (1,640)	\$ (22,079)	\$ (6,025)	
Total assets	\$ 650,083	\$ 59,390	\$	\$ 311	\$ 709,784	

Table of Contents

Nine months ended September 30, 2010	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	\$ 65,073	\$	\$ (69)	\$	\$ 65,004
Design-Build contract revenue and other sales		82,356	(15,950)		66,406
Property management and other fees	2,388				2,388
Development management and other income		5,444	(5,322)		122
Total revenues	67,461	87,800	(21,341)		133,920
Certain operating expenses:					
Property operating and management	25,652				25,652
Design-Build contracts and development management		68,553	(18,721)		49,832
Selling, general, and administrative		12,721	(69)		12,652
Impairment charges		13,635			13,635
Total certain operating expenses	25,652	94,909	(18,790)		101,771
	41,809	(7,109)	(2,551)		32,149
Interest and other income	419	3		24	446
Corporate general and administrative expenses				(9,198)	(9,198)
Interest expense				(16,332)	(16,332)
Interest rate derivative expense				(32)	(32)
Benefit from income taxes applicable to funds from operations modified				5,024	5,024
Non-real estate related depreciation and amortization		(704)		(179)	(883)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	14				14
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(1,571)				(1,571)
Income from discontinued operations before gain on sale	9			(3)	6
Funds from operations modified (FFOM)	40,680	(7,810)	(2,551)	(20,696)	9,623
Amortization of intangibles related to purchase accounting, net of income tax benefit	(127)	(1,711)		717	(1,121)

Funds from operations (FFO)	40,553	(9,521)	(2,551)	(19,979)	8,502
Real estate related depreciation and amortization	(21,846)				(21,846)
Gain on sale of real estate property	264				264
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	1,571				1,571
Net income (loss)	\$ 20,542	\$ (9,521)	\$ (2,551)	\$ (19,979)	\$ (11,509)
Total assets	\$ 592,538	\$ 159,767	\$	\$ 366	\$ 752,671

6. Contracts

Revenue and billings to date on uncompleted contracts, from their inception, are as follows (in thousands):

	September 30, 2011	December 31, 2010
Costs and estimated earnings on uncompleted contracts	\$ 61,275	\$ 48,394
Billings to date	(59,613)	(49,336)
Net costs and estimated earnings (billings) in excess of billings (costs and estimated earnings)	\$ 1,662	\$ (942)

The following table shows costs and estimated earnings in excess of billings and billings in excess of costs and estimated earnings as included with the consolidated balance sheets (in thousands):

	September 30, 2011	December 31, 2010
Costs and estimated earnings in excess of billings ⁽¹⁾	\$ 2,946	\$ 988
Billings in excess of costs and estimated earnings	(1,284)	(1,930)
Net costs and estimated earnings (billings) in excess of billings (costs and estimated earnings)	\$ 1,662	\$ (942)

⁽¹⁾ Included in Other assets in the consolidated balance sheet

At September 30, 2011 and December 31, 2010, we had retainage receivables of \$3.4 million and \$3.5 million, respectively, which are included in Tenant and accounts receivable in the condensed consolidated balance sheets.

Table of Contents**7. Goodwill and Intangible Assets**

We review the value of goodwill and intangible assets on an annual basis and when circumstances indicate a potential impairment may exist. The goodwill impairment review involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. Fair value is estimated by using two approaches, an income approach and a market approach. Each approach is weighted 50% in our analysis as we believe a market participant would consider both approaches equally. The income approach uses our projected operating results and discounted cash flows using a weighted-average cost of capital that reflects current market conditions. The cash flow projections use estimates of economic and market information over the projection period, including growth rates in revenues and costs and estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures, and changes in future working capital requirements. The market approach estimates fair value by applying cash flow multiples to our operating performance. The multiples are derived from comparable publicly traded companies with similar operating and profitability characteristics. Additionally, we reconcile the total of the estimated fair values of all our reporting units to our market capitalization to determine if the sum of the individual fair values is reasonable compared to the external market indicators.

If the carrying value of the reporting unit is higher than its fair value, then an indication of impairment may exist and a second step must be performed to measure the amount of impairment. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill calculated in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill is less than the recorded goodwill, then an impairment charge for the difference would be recorded.

For non-amortizing intangible assets, we generally estimate fair value by applying an estimated market royalty rate to projected revenues and then discount them using a weighted-average cost of capital that reflects current market conditions.

For the three months ended September 30, 2011, we performed step one of the impairment analysis due to potential indicators of impairment, including a decrease in the market value of comparable engineering and construction companies and a decrease in our stock price. We concluded that there was no impairment and a step two analysis was not necessary.

Our goodwill and trade names and trademarks, which are associated with the Design-Build and Development business segment, are not amortized. The following table shows the change in carrying value related to goodwill and trade names and trademarks as of June 30, 2011 (in thousands):

	Gross Amount	Accumulated Impairment	Net Carrying Value
Goodwill	\$ 180,438	\$ (157,556)	\$ 22,882
Trademarks and tradenames	75,968	(75,968)	

Amortizing intangible assets consisted of the following as of September 30, 2011 (in thousands):

	Amount	Accumulated Amortization	Net Carrying Value
In place lease value and deferred leasing costs	\$ 47,760	\$ (33,165)	\$ 14,595
Ground leases	4,132	(768)	3,364
Above market tenant leases	2,471	(1,278)	1,193
Property management contracts	2,097	(891)	1,206
Design-build customer relationships	1,789	(1,204)	585
Design-build signed contracts	13,253	(13,253)	
Design-build proposals	2,129	(2,129)	

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Total amortizing intangible assets	\$	73,631	\$	(52,688)	\$	20,943
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Table of Contents

At December 31, 2010, we performed an annual review of our intangible assets associated with the Design-Build and Development business segment and recorded an impairment charge to goodwill of \$85.8 million and recognized a non-cash income tax benefit of \$6.4 million, resulting in an after-tax impairment charge of \$79.4 million. We also recorded impairment charges related to trade names and trademarks of \$41.2 million and recognized a non-cash income tax benefit of \$16.0 million, resulting in an after-tax impairment charge of \$25.2 million. At December 31, 2010, we reviewed our position in the healthcare construction market place and our business development strategy. Based on our review of industry data, it was noted that our Design-Build and Development segment had lost market share in each of the last two years. As a result at December 31, 2010, we lowered our expected Design-Build and Development cash flows, which lowered the valuation of the reporting unit and caused the impairment charges. Due to decreases in market share, changes in our brand name, and decreased emphasis on branding, we have valued our acquired trade names and trademarks at zero as of December 31, 2010. We used a weighted-average cost of capital of 14.0% in our analysis. We also evaluated our amortizing intangible assets and concluded no impairment existed for those assets.

The following table presents information about our goodwill and certain intangible assets measured at fair value as of December 31, 2010 (in thousands):

Description	Fair Value Measurement				
	Recorded Value	Level 1	Level 2	Level 3	Total Losses
Goodwill	\$ 22,882	\$	\$	\$ 22,882	\$ (85,801)
Design-build customer relationships	1,153			1,161	
Trade names and trademarks					(41,240)
Design-build signed contracts				2,130	
Design-build proposals				938	
	\$ 24,035	\$	\$	\$ 27,111	\$ (127,041)

See Note 2 of these Condensed Consolidated Financial Statements for a discussion of our accounting policy regarding the fair value of financial and non-financial assets.

At June 30, 2010, we performed an interim review of our intangible assets associated with the Design-Build and Development business segment due to indicators of impairment, including a decrease in the market value of comparable engineering and construction companies, a decrease in our forecasted cash flow projections for this business segment resulting from negative macro-economic factors and continual delays in new project construction starts, and a reduction in workforce that occurred within the business segment. As a result of the June 30, 2010 review, we recorded, during the three and six months ended June 30, 2010, a pre-tax, non-cash impairment charge of \$13.6 million and recognized a non-cash income tax benefit of \$2.8 million, resulting in an after-tax impairment charge of \$10.8 million. We used a weighted-average cost of capital of 14.0% in our analysis.

The following table presents information about the our goodwill and certain intangible assets measured at fair value as of June 30, 2010, the date at which we recorded an after-tax, non-cash impairment charge of \$10.8 million (in thousands):

Description	Recorded Value as of June 30, 2010	Fair Value Measurement as of June 30, 2010			Total Losses
		Level 1	Level 2	Level 3	
Goodwill	\$ 102,195	\$	\$	\$ 102,195	\$ (6,488)
Trade names and trademarks	34,093			34,093	(7,147)

Signed contracts				4,736	
Proposals	895			1,101	
Customer relationships	1,399			2,475	
	\$ 138,582	\$	\$	\$ 144,600	\$ (13,635)

See Note 2 of these Condensed Consolidated Financial Statements for a discussion of our accounting policy regarding the fair value of financial and non-financial assets.

The following table shows the change in carrying value related to the Design-Build and Development business segment's intangible assets from the June 30, 2010 measurement date to December 31, 2010 (in thousands):

		Recorded Value	Amortization for the Six Months Ended	Impairment Charges	Recorded Value
	Location of Asset	as of June 30, 2010	December 31, 2010	Recorded as of December 31, 2010	as of December 31, 2010
Goodwill	Goodwill	\$ 102,195	n/a	\$ (79,313)	\$ 22,882
Trade names and trademarks	Trade names and trademarks	34,093	n/a	(34,903)	
Acquired proposals	Intangible assets	895	\$ (895)		
Acquired customer relationships	Intangible assets	1,399	(246)		1,153
		\$ 138,582	\$ (1,141)	\$ (114,216)	\$ 24,035

Table of Contents

Amortization expense related to intangibles for the nine months ended September 30, 2011 and 2010 was \$3.5 and \$4.5 million, respectively. We expect to recognize amortization expense from the amortizing intangible assets as follows (in thousands):

	Future Amortization Expense
For the year ending:	
Remainder of 2011	\$ 1,087
2012	3,786
2013	2,742
2014	2,512
2015	2,029
Thereafter	8,787
	\$ 20,943

8. Mortgage Notes Payable and Borrowing Agreements***Line of Credit***

On March 1, 2011, we amended and restated our secured revolving credit facility (Credit Facility). This \$200.0 million Credit Facility is held with a syndicate of financial institutions. The Credit Facility is available (1) to fund working capital and other general corporate purposes, (2) to finance acquisition and development activity, and (3) to refinance existing and future indebtedness. The Credit Facility permits us to borrow, subject to borrowing base availability, up to \$200.0 million of revolving loans, with sub-limits of \$25.0 million for swingline loans and \$25.0 million for letters of credit. As of September 30, 2011, the maximum available borrowings under the Credit Facility was \$121.5 million, with \$82.0 million drawn, based on 70% of the value of the aggregate property pledged as collateral. We have the ability to increase the availability by pledging additional unencumbered property to the Credit Facility.

The Credit Facility also allows for up to \$150.0 million of increased availability (to a total aggregate available amount of \$350.0 million), at our request but subject to each lender's option to increase its commitment. The interest rate on loans under the Credit Facility equals, at our election, either (1) LIBOR (0.24% as of September 30, 2011) plus a margin of between 275 to 350 basis points based on our total leverage ratio (3.25% as of September 30, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (3.25% as of September 30, 2011) plus a margin of between 175 to 250 (2.25% as of September 30, 2011) basis points based on our total leverage ratio.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth (\$237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date of March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00). Additionally, provisions in the Credit Facility indirectly prohibit us from redeeming or otherwise repurchasing any shares of our stock, including our preferred stock.

On August 1, 2011, we entered into Amendment No. 2 to the Credit Facility (Amendment No. 2 to the Credit Facility). Amendment No. 2 to the Credit Facility modified, among other things, the financial covenant to exclude the

\$80.8 million secured term loan facility (the Term Loan Facility), discussed below, from the calculation of the secured recourse indebtedness ratio and to decrease the maximum secured recourse indebtedness ratio to 15%. Prior to Amendment No. 2 to the Credit Facility, we entered into Amendment No. 1 to the Credit Facility (Amendment No. 1 to the Credit Facility) to make a non-material change to revise a negative covenant that unintentionally restricted our ability to incur liens securing recourse indebtedness for us or our subsidiaries.

Table of Contents***Notes Payable***

On August 2, 2011, we closed on an \$80.8 million Term Loan Facility, dated as of August 2, 2011, among us, as a Guarantor, the Operating Partnership, as Borrower, Bank of America, N.A., as administrative agent, and the other lenders from time to time party thereto. Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as the sole lead arranger and sole bookrunner for the Term Loan Facility.

We used the proceeds of the Term Loan Facility to refinance \$58.6 million of certain mortgages that mature in 2011 and 2012 and to pay down \$22.2 million of our \$200 million secured Credit Facility. The Term Loan Facility matures on August 2, 2014, subject to a one-year extension at our option conditioned upon continued compliance with the representations, warranties and covenants, and payment of a fee to the lenders. The Term Loan Facility also contains an accordion feature, which permits us to request the lenders, from time to time, to increase the facility to a total borrowing amount of \$130.8 million, subject to continued compliance with the representations, warranties, and covenants.

Borrowings under the Term Loan Facility bear interest at either (1) LIBOR (0.24% as of September 30, 2011) plus a margin of between 325 to 400 basis points based on our total leverage ratio (3.50% as of September 30, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (3.25% as of September 30, 2011) plus a margin of between 225 to 300 (2.50% as of September 30, 2011) basis points based on our total leverage ratio.

The Term Loan Facility is secured by a pledge of our ownership interests in certain of our property-owning subsidiaries. We will be required, however, to deliver mortgages on the borrowing base properties if we exceed a specified leverage ratio or fail to meet a specified fixed charge ratio. The Term Loan Facility is guaranteed by us and certain of our subsidiaries.

We are subject to customary covenants substantially similar to those for the Credit Facility including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met by us at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Term Loan Facility and the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2013, and 1.50 to 1.00 thereafter), and minimum consolidated tangible net worth (\$237.1 million plus 80% of the net proceeds of equity issuances occurring after the closing date of the Term Loan Facility). In addition to the covenants above, we are also subject to a debt service coverage ratio (1.30 to 1.00 or greater), which is based on our net operating income attributable to the borrowing base properties.

In April 2011, we refinanced a \$5.1 million mortgage note payable on our English Road Medical Center property. The principal balance was unchanged and the note matures in April 2016. The interest rate decreased from 6.0% to 5.0% and with monthly principal and interest payments based approximately on a 25-year amortization.

In March 2011, we began construction on a new project located in Duluth, Minnesota. We obtained construction financing with a maximum principal balance of \$19.5 million and an interest rate of LIBOR plus 3.25%, with a minimum interest rate of 5.5%. Monthly payments are interest only during the construction period and thereafter will be principal and interest based on a 25-year amortization. The mortgage note matures in September 2016.

Our mortgages are collateralized by property and principal and interest payments are generally made monthly. Scheduled maturities of mortgages and notes payable (excluding amortized premium) under the Credit Facility and the Term Loan Facility as of September 30, 2011, are as follows (in thousands):

For the year ending:	Total
Remainder of 2011	\$ 14,629
2012	20,664
2013	15,871

2014	226,933
2015	21,632
Thereafter	134,480
	\$ 434,209

At September 30, 2011, we were in compliance with all of our loan covenants.

Table of Contents**9. Derivative Financial Instruments**

Interest rate swap and interest rate cap agreements are utilized to reduce exposure to variable interest rates associated with certain mortgage notes payable. These agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal amount (the notional amount) or a cap on the referenced rate. The interest rate swap and interest rate cap agreements are reported at fair value in the consolidated balance sheet within

Other assets or Other liabilities and changes in the fair value, net of tax where applicable, are reported in accumulated other comprehensive income (loss) (AOCI) exclusive of ineffective amounts. Ineffective amounts of change in the fair value, net of tax where applicable, are reported in income. Ineffectiveness may occur due to derivative overperformance, which is generally caused by a lack of notional on the debt or differences in reset terms between the debt and the derivative. The following table summarizes the terms of our interest rate swap agreements and their fair values at September 30, 2011 and December 31, 2010 (dollars in thousands):

Entity/Property	As of September 30, 2011					September 30, 2011		December 31, 2010	
	Notional	Receive	Pay	Effective	Expiration	Asset	Liability	Asset	Liability
	Amount	Rate	Rate	Date	Date				
East Jefferson Medical Plaza	\$ 11,600	1 Month LIBOR	1.80%	1/15/2009	12/23/2011	\$	\$ 42	\$	\$ 173
River Hills Medical Plaza	3,031	1 Month LIBOR	1.78%	1/15/2009	1/31/2012		15		50
HealthPartners Medical Office Building	11,631	1 Month LIBOR	3.55%	6/1/2010	11/1/2014		1,044		899
Lancaster ASC MOB	10,202	1 Month LIBOR	4.03%	3/14/2008	3/2/2015		1,103		938
Bonney Lake MOB Investors LLC	11,505	1 Month LIBOR	3.19%	10/1/2011	10/1/2016		1,046		
Woodlands Center for Specialized Medicine	16,388	1 Month LIBOR	4.71%	4/1/2010	10/1/2018		3,301		2,200
Medical Center Physicians Tower	14,517	1 Month LIBOR	3.69%	9/1/2010	3/1/2019		1,989		921
University Physicians Grants		1 Month LIBOR							
Ferry	10,267	1 Month LIBOR	3.70%	10/1/2010	4/1/2019		1,417		654
Beaufort Medical Plaza ⁽¹⁾	n/a	n/a	n/a	n/a	n/a				107
Cogdell Spencer LP ⁽¹⁾	n/a	n/a	n/a	n/a	n/a				162
St. Francis Community MOB LLC ⁽¹⁾	n/a	n/a	n/a	n/a	n/a				102
	n/a	n/a	n/a	n/a	n/a				109

The following table summarizes the terms of the interest rate cap agreement and its fair value at September 30, 2011 and December 31, 2010 (dollars in thousands):

	Notional			Effective	Expiration	September 30, 2011		December 31, 2010	
Entity/Property	Amount	Receive Rate	Strike Rate	Date	Date	Asset	Liability	Asset	Liability
Rocky Mount		1 Month							
Medical Park LP	\$ 10,136	LIBOR	3.00%	2/1/2011	10/22/2014	\$ 13	\$	\$	\$

The following table shows the effect of our derivative financial instruments designated as cash flow hedges for the periods shown (in thousands):

	Location of Gain or (Loss) Reclassified	Gain or (Loss) Reclassified from		
Gain or (Loss) Recognized in AOCI, Noncontrolling Interests in	from AOCI, Noncontrolling Interests in	AOCI, Noncontrolling Interests in		
Operating Partnership, and Noncontrolling Interests in Real Estate Partnerships - Effective Portion (1)	Operating Partnership, and Noncontrolling Interests in Real Estate Partnerships into Income - Effective Portion	Operating Partnership, and Noncontrolling Interests in Real Estate Partnerships into Income - Effective Portion (1)	Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing	Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing

September 30, 2011	\$	(3,285)	Interest Expense	\$	(693)	Interest rate derivative expense	\$	
September 30, 2010	\$	(1,680)	Interest Expense	\$	(1,309)		\$	(7)

				Interest rate derivative expense	
For the nine months ended:					
September 30, 2011	\$	(3,793)	Interest Expense	\$	(2,445)
				Interest rate derivative expense	\$
September 30, 2010	\$	(6,076)	Interest Expense	\$	(3,304)
				Interest rate derivative expense	\$ (32)

- (1) Refer to the Condensed Consolidated Statement of Changes in Equity, which summarizes the activity in unrealized gain (loss) on derivative financial instruments, net of tax related to the interest rate swap and interest rate cap agreements.

Table of Contents

The following tables present information about our assets and liabilities measured at fair value on a recurring basis for the periods shown, and indicates the fair value hierarchy referenced in Note 2 of these Condensed Consolidated Financial Statements of the valuation techniques utilized by us to determine such fair value (in thousands):

	Fair Value Measurements as of			
	September 30, 2011			
	Total	Level 1	Level 2	Level 3
Assets-				
Interest rate cap agreement	\$ 13	\$	\$ 13	\$
Liabilities-				
Interest rate swap agreements	\$ (9,957)	\$	\$ (9,957)	\$

	Fair Value Measurements as of			
	December 31, 2010			
	Total	Level 1	Level 2	Level 3
Liabilities-				
Interest rate swap agreements	\$ (6,315)	\$	\$ (6,315)	\$

The valuation of derivative financial instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. The fair values of variable to fixed interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rate forward curves derived from observable market interest rate curves. We incorporate credit valuation adjustments to appropriately reflect both our nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

10. Equity***Preferred Shares***

There were approximately 2.9 million shares of our 8.500% Series A cumulative redeemable perpetual preferred stock (Series A preferred shares) outstanding at September 30, 2011. The Series A preferred shares have no stated maturity and are not subject to any sinking fund or mandatory redemption. Upon certain circumstances upon a change of control, the Series A preferred shares are convertible to common shares. Holders of Series A preferred shares have no voting rights, except under limited conditions, and holders are entitled to receive cumulative preferential dividends. Dividends are payable quarterly in arrears on the first day of March, June, September, and December.

The following is a summary of changes of our Series A preferred shares for the periods shown (in thousands):

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Preferred shares at beginning of period	2,600	
Issuance of preferred shares	340	
Preferred shares at end of period	2,940	

Common Shares and Units

An Operating Partnership unit (OP Unit) and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss and distributions of the Operating Partnership. An

OP Unit may be tendered for redemption for cash; however, we have sole discretion and a sufficient amount of authorized common stock to exchange OP Units for shares of common stock on a one-for-one basis.

Table of Contents

Long Term Incentive Plan Units (LTIP Units) are a special class of partnership interests in the Operating Partnership. Each LTIP Unit awarded will be deemed equivalent to an award of one share of common stock under the 2005 and 2010 long-term stock incentive plans, reducing the availability for other equity awards on a one-for-one basis. The vesting period for LTIP Units, if any, will be determined at the time of issuance. Cash distributions on each LTIP Unit, whether vested or not, will be the same as those made on the OP Units. Under the terms of the LTIP Units, the Operating Partnership will revalue for tax purposes its assets upon the occurrence of certain specified events, and any increase in valuation from the time of grant until such event will be allocated first to the holders of LTIP Units to equalize the capital accounts of such holders with the capital accounts of OP Unitholders. Subject to any agreed upon exceptions, once vested and the capital accounts of the LTIP Units are equalized, then such LTIP Units are convertible into OP Units in the Operating Partnership on a one-for-one basis.

As of September 30, 2011, there were 58.6 million OP Units outstanding, of which 51.1 million, or 87.2%, were owned by us and 7.5 million, or 12.8%, were owned by other partners, including certain directors, officers and other members of executive management. As of September 30, 2011, the fair market value of the OP Units not owned by us was \$28.2 million, based on a market value of \$3.77 per unit, which was the closing stock price of our common shares on the NYSE on September 30, 2011.

The following is a summary of changes of our common stock for the periods shown (in thousands):

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Common shares at beginning of period	50,870	42,729
Issuance of common shares		7,208
Conversion of OP Units to common stock	172	215
Restricted stock grants	38	557
Common shares at end of period	51,080	50,709

The following is net income (loss) attributable to Cogdell Spencer Inc. and the issuance of common stock in exchange for redemptions of OP Units for the periods shown (in thousands):

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Net loss attributable to Cogdell Spencer Inc.	\$ (9,950)	\$ (10,574)
Increase in Cogdell Spencer Inc. additional paid-in capital for the conversion of OP units into common stock	516	1,147
Change from net loss attributable to Cogdell Spencer Inc. and transfers from noncontrolling interests	\$ (9,434)	\$ (9,427)

Noncontrolling Interests in Real Estate Partnerships

Noncontrolling interests in real estate partnerships at September 30, 2011 and December 31, 2010 relate to the consolidated entities referenced in Note 3 of these Condensed Consolidated Financial Statements. See Note 3 of these Condensed Consolidated Financial Statements for additional information regarding our investments in real estate partnerships.

Dividends and Distributions

On September 9, 2011, we announced that our Board of Directors had declared a quarterly dividend of \$0.10 per share and OP Unit that was paid in cash on October 19, 2011 to holders of record on September 23, 2011. The \$5.1 million

dividend on our common stock covered our third quarter of 2011. Additionally, distributions declared to OP Unitholders, excluding inter-company distributions, totaled \$0.6 million for the third quarter of 2011.

On November 3, 2011, we announced that our Board of Directors declared a quarterly dividend of \$0.53125 per share on our Series A preferred shares for the period September 1, 2011 to November 30, 2011. The \$1.6 million dividend will be paid on December 1, 2011, to holders of record on November 17, 2011.

Table of Contents**11. Incentive and Share-Based Compensation**

Our 2005 and 2010 Long-Term Stock Incentive Plans (collectively, the Incentive Plans) provide for the grant of incentive awards to employees, directors and consultants to attract and retain qualified individuals and reward them for superior performance in achieving the Company's business goals and enhancing stockholder value. Awards issuable under the Incentive Plans include stock options, restricted stock, dividend equivalents, stock appreciation rights, LTIP Units, cash performance bonuses and other incentive awards. Only employees are eligible to receive incentive stock options under the Incentive Plans. We have reserved a total of 2,512,000 shares of common stock for issuance pursuant to the Incentive Plans, subject to certain adjustments set forth in the plans. Each LTIP Unit issued under the Incentive Plans will count as one share of stock for purposes of calculating the limit on shares that may be issued under the plans. At September 30, 2011, a total of 831,190 shares of common stock are available for future grant under the Incentive Plans.

We recognized total compensation expense of \$0.7 million and \$0.6 million for the nine months ended September 30, 2011 and 2010, respectively.

In September 2010, we issued 447,094 shares of restricted common stock to our President and Chief Executive Officer, Mr. Raymond Braun, as a performance award grant. The restricted common stock vests, subject to the satisfaction of pre-established performance measures, 100% on December 31, 2013, or earlier if Mr. Braun is terminated without cause. The restricted common stock was valued at \$5.99 per share, the closing common stock price on the NYSE on the grant date for accounting purposes of June 30, 2011, which was the date our Board of Directors approved the performance criteria.

The following is a summary of restricted stock and LTIP unit activity for the nine months ended September 30, 2011 (in thousands, except weighted average grant price):

	Restricted Stock	LTIP Units	Weighted Average Grant Price
Unvested balance at January 1, 2011	75	65	\$ 10.69
Granted	464	152	5.72
Vested	(17)	(136)	4.92
Unvested balance at September 30, 2011	522	81	\$ 7.07

12. Litigation**Litigation Activity**

During the three and nine months ended September 30, 2011, an arbitrator awarded \$2.5 million to plaintiffs in a case in which we were named as the defendant. We had previously recorded a \$2.8 million accrual for this litigation. During the third quarter we reversed \$0.3 million of the litigation accrual and paid the \$2.5 million award.

In a separate case in which we were the plaintiff, we settled with the defendant for \$0.5 million in cash which we received during the three and nine months ended September 30, 2011. We recorded a litigation gain of \$0.5 million.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Cogdell Spencer Inc. Consolidated Financial Statements and Notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2010 and our Condensed Consolidated Financial Statements and Notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

When used in this discussion and elsewhere in this Quarterly Report on Form 10-Q, the words "believes," "anticipates," "projects," "should," "estimates," "expects," and similar expressions are intended to identify forward-looking statements with the meaning of that term in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and in Section 21F of the Securities Exchange Act of 1934, as amended. Actual results may differ materially due to uncertainties including the following:

changes in general economic and business conditions;

our ability to execute our business strategy;

our ability to comply with financial covenants in our debt instruments;

our ability to raise capital on terms that are favorable to us;

our ability to obtain future financing arrangements, including refinancing existing arrangements, on terms that are favorable to us;

estimates relating to our future distributions;

increased competition for tenants and new properties;

our ability to renew our ground leases;

legislative and regulatory changes (including changes to laws governing the taxation of REITs and individuals);

increases in costs of borrowing as a result of changes in interest rates;

our ability to maintain our qualification as a REIT due to economic, market, legal, or tax considerations;

changes in the reimbursement available to our tenants by government or private payors;

our tenants' ability to make rent payments and renew leases at the end of the term;

defaults by tenants and customers;

access to financing by customers;

delays in project starts and cancellations by customers;

our ability to convert design-build project opportunities into new engagements for us;

market trends; and

projected capital expenditures.

We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Readers are cautioned not to place undue reliance on any of these forward-looking statements.

Overview

We are a fully-integrated, self-administered, and self-managed REIT that invests in healthcare facilities, including medical offices and ambulatory surgery and diagnostic centers. We focus on the ownership, delivery, acquisition, and management of strategically located healthcare facilities in the United States of America. We have been built around understanding and addressing the specialized real estate needs of the healthcare industry and providing services from strategic planning to long-term property ownership and management. Integrated delivery service offerings include strategic planning, design, construction, development and project management services for properties owned by us or by third parties.

Table of Contents

We are building a national portfolio of healthcare properties primarily located on hospital campuses. Since our initial public offering in 2005, we have grown through acquisitions and facility development to encompass a national footprint, including seven regional offices located throughout the United States (Atlanta, Charlotte, Dallas, Denver, Madison, Seattle, and Washington, D.C.) and 27 property management offices. Client relationships and advance planning services give us the ability to be included in the initial project discussions that can lead to ownership and investment in healthcare properties.

In the nine months ended September 30, 2011, we acquired three buildings totaling approximately 213,000 net rentable square feet for approximately \$41.0 million. These acquisitions resulted in two new hospital relationships. St. Elizabeth Florence Medical Office Building, located in Florence, Kentucky, and St. Elizabeth Covington Medical Center, located in Covington, Kentucky, are located on campus with the St. Elizabeth Healthcare hospital system. Doylestown Health & Wellness Center, located in Doylestown, Pennsylvania, is located on campus with Doylestown Hospital.

In the three and nine months ended September 30, 2011, we completed construction on one medical office building totaling 55,991 net rentable square feet for approximately \$21.8 million. This building is 96.9% leased at September 30, 2011.

In the three and nine months ended September 30, 2011, we initiated a new development project to build a rehabilitation hospital located in Cleveland, Ohio. The project is an approximate 54,500 rentable square foot, two story building and is 100% owned by us. The off-campus, hospital affiliated, rehabilitation hospital has an estimated cost of \$18.3 million (\$15.0 million inter-company design-build contract) and is 100% pre-leased by a joint venture entity that includes University Hospital Health System and Centerre Healthcare. Construction is expected to be completed in the fourth quarter of 2012.

As of September 30, 2011, we had two investment projects under construction totaling approximately 256,000 net rentable square feet with a total estimated investment of approximately \$52.5 million. One of these projects is scheduled to be completed before the end of 2011.

As of September 30, 2011, we owned and/or managed 117 medical office buildings and healthcare related facilities, totaling approximately 6.2 million net rentable square feet. Our portfolio consists of:

	Number of Properties	Net Rentable Square Feet (in millions)	Percentage Leased
Stabilized properties:			
Wholly-owned	61	3.33	
Consolidated joint ventures	7	0.51	
Total stabilized properties	68	3.84	92.3%
Fill-up properties ⁽¹⁾ :	2	0.11	66.5%
Total consolidated properties	70	3.95	
Unconsolidated joint venture properties	3	0.21	
Properties managed for third parties	44	1.99	
Total portfolio	117	6.15	

⁽¹⁾ Fill-up properties are newly available properties that have not achieved underwritten stabilized occupancy.

At September 30, 2011, 73.3% of our wholly-owned and consolidated properties were located on hospital campuses and an additional 11.7% were located off-campus, but were hospital anchored. We believe that our on-campus and hospital anchored assets occupy a premier franchise location in relation to local hospitals, providing our properties with a distinct competitive advantage over alternative medical office space in an area. As of September 30, 2011, our

68 stabilized properties had a weighted average remaining lease term of approximately 5.5 years.

We derive the majority of our revenues from two main sources: 1) rents received from tenants under leases in healthcare facilities, and 2) revenue earned from design-build construction contracts and development contracts. To a lesser degree, we derive revenue from consulting and property management agreements.

Table of Contents

We expect that rental revenue will remain stable due to multi-year, non-cancellable leases with annual rental increases based on the Consumer Price Index (CPI). We have been able to maintain a high occupancy rate for our stabilized, consolidated wholly-owned and joint venture properties due to our focus on customer relationships. For the nine months ended September 30, 2011, we renewed 88.0% of our scheduled lease expirations. Generally, our property operating revenues and expenses have remained consistent over time, except for growth due to property developments and property acquisitions.

The demand for our design-build and development services has been, and will likely continue to be, cyclical in nature. Financial results can be affected by the amount and timing of capital spending by healthcare systems and providers, the demand for design-build and development s services in the healthcare facilities market, the availability of construction level financing, changes in our market share, and weather at the construction sites. In periods of adverse economic conditions, our design-build and development customers may be unwilling or unable to make capital expenditures and they may be unable to obtain debt or equity financings for projects. As a result, customers may defer projects to a later date, which could reduce our revenues.

Critical Accounting Estimates

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared on the accrual basis of accounting in conformity with GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. Critical accounting policies are those judged to involve accounting estimates or assumptions that may be material due to the levels of subjectivity and judgment necessary to account for uncertain matters or susceptibility of such matters to change. Other companies in similar businesses may utilize different estimation policies and methodologies, which may impact the comparability of our results of operations and financial condition to those companies.

Acquisition of Real Estate

The price we pay to acquire a property is impacted by many factors, including the condition of the buildings and improvements, the occupancy of the building, the existence of above and below market tenant leases, the creditworthiness of the tenants, favorable or unfavorable financing, above or below market ground leases and numerous other factors. Accordingly, we are required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the assets acquired and liabilities assumed based on our estimate of the fair values of such assets and liabilities. This includes determining the value of the buildings and improvements, land, any ground leases, tenant improvements, in-place tenant leases, tenant relationships, the value (or negative value) of above (or below) market leases and any debt assumed from the seller or loans made by the seller to us. Each of these estimates requires significant judgment and some of the estimates involve complex calculations. Our calculation methodology is summarized in Note 2 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. These allocation assessments have a direct impact on our results of operations. If we were to allocate more value to land, there would be no depreciation with respect to such amount. Similarly, if we were to allocate more value to the buildings as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the terms of the leases. Additionally, the amortization of value (or negative value) assigned to above (or below) market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place leases and tenant relationships, which is included in depreciation and amortization in our consolidated statements of operations.

Useful Lives of Assets

We are required to make subjective assessments as to the useful lives of our properties and intangible assets for purposes of determining the amount of depreciation and amortization to record on an annual basis with respect to our

assets. These assessments have a direct impact on our net income (loss) because if we were to shorten the expected useful lives, then we would depreciate or amortize such assets over fewer years, resulting in more depreciation or amortization expense on an annual basis.

Table of Contents

Asset Impairment Valuation

We review the carrying value of our properties, investments in real estate partnerships, and amortizing intangible assets annually and when circumstances, such as adverse market conditions, indicate that a potential impairment may exist. We base our review on an estimate of the future cash flows (excluding interest charges) expected to result from the asset's use and potential eventual disposition. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of an investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the asset. These losses have a direct impact on our net income (loss) because recording an impairment loss results in an immediate negative adjustment to operating results. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future sales, backlog, occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Because cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, our strategy of holding properties over the long-term directly decreases the likelihood of recording an impairment loss for properties. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If we determine that impairment has occurred, the affected assets must be reduced to their fair value. We estimate the fair value of rental properties utilizing a discounted cash flow analysis that includes projections of future revenues, expenses and capital improvement costs, similar to the income approach that is commonly utilized by appraisers.

We review the value of goodwill using an income approach and market approach on an annual basis and when circumstances indicate a potential impairment may exist. Our methodology to review goodwill impairment, which includes a significant amount of judgment and estimates, provides a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether or not goodwill is impaired are outside of our control and it is likely that assumptions and estimates will change in future periods. These changes can result in future impairments which could be material.

The goodwill impairment review involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. Fair value is estimated by utilizing two approaches, an income approach and a market approach. The income approach uses the reporting unit's projected operating results and discounted cash flows using a weighted-average cost of capital that reflects current market conditions. The cash flow projections use estimates of economic and market information over the projection period, including growth rates in revenues and costs and estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures, and changes in future working capital requirements. The market approach estimates fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and profitability characteristics. Additionally, we reconcile the total of the estimated fair values of all our reporting units to our market capitalization to determine if the sum of the individual fair values is reasonable compared to the external market indicators.

If the carrying value of the reporting unit is higher than its fair value, then an indication of impairment may exist and a second step must be performed to measure the amount of impairment. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill calculated in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill is less than the recorded goodwill, then an impairment charge for the difference is recorded. For non-amortizing intangible assets, we estimate fair value by applying an estimated market royalty rate to projected revenues and discount using a weighted-average cost of capital that reflects current market conditions.

If market and economic conditions deteriorate and cause (1) declines in our stock price, (2) increases in the estimated weighted-average cost of capital, (3) changes in cash flow multiples or projections, or (4) changes in other inputs to goodwill assessment estimates, then a goodwill impairment review may be required prior to our next annual test. It is reasonably possible that changes in the numerous variables associated with the judgments, assumptions, and estimates could cause the goodwill or non-amortizing intangible assets to become impaired. If goodwill or non-amortizing

intangible assets are impaired, we are required to record a non-cash charge that could have a material adverse affect on our consolidated financial statements.

Table of Contents

Revenue Recognition

Rental income related to non-cancelable operating leases is recognized using the straight line method over the terms of the tenant leases. Deferred rents included in our consolidated balance sheets represent the aggregate excess of rental revenue recognized on a straight line basis over the rental revenue that would be recognized under the cash flow received, based on the terms of the leases. Our leases generally contain provisions under which the tenants reimburse us for all property operating expenses and real estate taxes we incur. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants. We recognize amortization of the value of acquired above or below market tenant leases as a reduction of rental income in the case of above market leases or an increase to rental revenue in the case of below market leases.

For design-build contracts, we recognize revenue under the percentage of completion method. Due to the volume, varying complexity, and other factors related to our design-build contracts, the estimates required to determine percentage of completion are complex and use subjective judgments. Changes in labor costs and material inputs can have a significant impact on the percentage of completion calculations. We have a long history of developing reasonable and dependable estimates related to design-build contracts with clear requirements and rights of the parties to the contracts. As long-term design-build projects extend over one or more years, revisions in cost and estimated earnings during the course of the work are reflected in the accounting period in which the facts which require the revision become known. At the time a loss on a design-build project becomes known, the entire amount of the estimated ultimate loss is recognized in our consolidated financial statements.

We receive fees for property management and development and consulting services from time to time from third parties which are reflected as fee revenue. Management fees are generally based on a percentage of revenues for the month as defined in the related property management agreements. Revenue from development and consulting agreements is recognized as earned per the agreements. Due to the amount of control we retain, most joint venture developments will be consolidated; therefore, those development fees will be eliminated in consolidation.

Other income shown in the statement of operations generally includes interest income, primarily from the amortization of unearned income on a sales-type capital lease recognized in accordance with GAAP, and other income incidental to our operations and is recognized when earned.

We must make subjective estimates as to when our revenue is earned and the collectability of our accounts receivable related to design-build contracts and other sales, deferred rent, expense reimbursements, lease termination fees and other income. We specifically analyze accounts receivable and historical bad debts, tenant and customer concentrations, tenant and customer creditworthiness, and current economic trends when evaluating the adequacy of the allowance for bad debts. These estimates have a direct impact on our net income because a higher bad debt allowance would result in lower net income, and recognizing rental revenue as earned in one period versus another would result in higher or lower net income for a particular period.

Income Taxes

We use certain assumptions and estimates in determining income taxes payable or refundable, deferred income tax liabilities and assets for events recognized differently in our consolidated financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations. We exercise considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are re-evaluated on a continual basis as regulatory and business factors change.

Tax returns submitted by us or the income tax reported on the consolidated financial statements may be subject to adjustment by either adverse rulings by the U.S. Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service (IRS). We are subject to potential adverse adjustments, including but not limited to: an increase in the statutory federal or state income tax rates, the permanent nondeductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

We will only include the current and deferred tax impact of our tax positions in the financial statements when it is more likely than not (likelihood of greater than 50%) that such positions will be sustained by taxing authorities, with

full knowledge of relevant information, based on the technical merits of the tax position. While we support our tax positions by unambiguous tax law, prior experience with the taxing authority, and analysis that considers all relevant facts, circumstances and regulations, we must still rely on assumptions and estimates to determine the overall likelihood of success and proper quantification of a given tax position.

Table of Contents

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability. Accounting literature states that a deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The determination of whether a deferred tax asset is realizable is based on weighting all available evidence, including both positive and negative evidence. In making such judgments, significant weight is given to evidence that can be objectively verified.

REIT Qualification Requirements

We are subject to a number of operational and organizational requirements to qualify and then maintain qualification as a REIT. If we do not qualify as a REIT, our income would become subject to U.S. federal, state and local income taxes at regular corporate rates which could be substantial and we could not re-elect to qualify as a REIT for four taxable years following the year we failed to qualify as a REIT. The resulting adverse effects on our results of operations, liquidity and amounts distributable to stockholders may be material.

Results of Operations

Our income (loss) from operations is generated primarily from operations of our properties and design-build services and to a lesser degree from consulting and property management agreements. The changes in operating results from period to period reflect changes in existing property performance, changes in the number of properties due to development, acquisition, or disposition of properties, and the operating results of the Design-Build and Development segment.

Business Segments

We have two identified reportable segments: (1) Property Operations and (2) Design-Build and Development. We define business segments by their distinct customer base and service provided. While we operate as a single entity, we produce discrete financial information for each segment, which is reviewed by the chief operating decision maker to make resource allocation decisions and assess performance. Property Operations includes real estate investment and rental activities as well as property management for third parties. Design-Build and Development includes design-build construction activities as well as development and consulting activities. For additional information, see Note 5 of the accompanying Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

Property Summary

The following is an activity summary of our property portfolio (excluding unconsolidated real estate partnerships) for the periods shown:

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2011	2010	2011	2010
Properties at beginning of the period	69	65	66	62
Acquisitions (including fill-up properties)		1	3	1
Developments (including fill-up properties)	1		1	3
Properties at end of the period	70	66	70	66

	Year Ended
	December 31,
	2010
Properties at January 1	62
Acquisitions (including fill-up properties)	1
Developments (including fill-up properties)	3

The tables above include East Jefferson MRI, which is accounted for as a sales-type capital lease.

A property is considered stabilized upon the earlier of (1) achieving intended occupancy and substantial completion of tenant improvements, or (2) completion of the fill-up period specified within the property's underwriting. Fill-up properties are newly available properties that have not achieved underwritten stabilized occupancy. For portfolio and operational data, a single stabilized date is used. For GAAP reporting purposes, a property is placed into service in stages as construction is completed and the property and tenant space is available for its intended use. At September 30, 2011, we had two properties in fill-up, St. Elizabeth Florence Medical Office Building located in Florence, Kentucky, and St. Elizabeth Covington Medical Center, located in Covington, Kentucky.

Table of Contents***Comparison of the Three and Nine Months Ended September 30, 2011 and 2010******Funds from Operations Modified (FFOM)***

For the three months ended September 30, 2011, FFOM, excluding our litigation gains and losses, decreased \$0.3 million, or 5.7% compared to the same period in the prior year. This decrease is due to a decrease in income tax benefit because of the full deferred tax asset valuation allowance against our current period net deferred tax assets whereas there was no such valuation allowance in the prior period, offset by 1) three additional stabilized properties in our portfolio and 2) increase in Design-Build and Development segment revenue due to more active revenue generating third-party design-build construction projects.

For the nine months ended September 30, 2011, FFOM, excluding our litigation gains and losses, impairment charges, and CEO retirement expense, decreased \$10.5 million, or 45.4% compared to the same period in the prior year. This decrease is due to 1) decrease in Design-Build and Development segment revenue due to fewer active revenue generating third-party design-build construction projects for the nine month time periods, 2) decreases in gross margins for the Design-Build and Development segment, and 3) decrease in income tax benefit because of the full deferred tax asset valuation allowance against our current period net deferred tax assets whereas there was no such valuation allowance in the prior period, offset by five additional stabilized properties in our portfolio.

The following is a summary of FFOM for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2011	2010	2011	2010
FFOM attributable to:				
Property operations	\$ 14,965	\$ 14,205	\$ 43,384	\$ 40,680
Design-Build and development, excluding litigation gains and losses and impairment charges	(494)	(2,221)	(2,415)	5,825
Intersegment eliminations	(166)	(323)	(1,640)	(2,551)
Unallocated and other, excluding CEO retirement expense	(9,286)	(6,339)	(26,765)	(20,938)
FFOM, excluding litigation gains and losses, impairment charges, and CEO retirement expense	5,019	5,322	12,564	23,016
Impact of litigation gains and losses, impairment charges, and CEO retirement expense:				
Litigation gain (loss) provision	339		(1,461)	
Litigation gain settlement	500		500	
Goodwill and intangible asset impairment charges, net of tax benefit				(10,848)
CEO retirement compensation expense, net of tax benefit				(2,545)
FFOM	\$ 5,858	\$ 5,322	\$ 11,603	\$ 9,623

Table of Contents

See Note 5 of the accompanying Notes to Condensed Consolidated Financial Statements in this Form 10-Q for business segment information and management's use of FFO and FFOM to evaluate operating performance. The following table presents the reconciliation of FFO and FFOM to net loss, which is the most directly comparable GAAP measure to FFO and FFOM, for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2011	2010	2011	2010
Net loss	\$ (236)	\$ (1,951)	\$ (6,025)	\$ (11,509)
Add:				
Real estate related depreciation and amortization:				
Wholly-owned and consolidated properties	8,077	7,372	22,788	21,837
Unconsolidated real estate partnerships	2	3	8	9
Acquisition-related expenses	23		505	
Less:				
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(677)	(476)	(1,681)	(1,571)
Gain on sale of real estate property				(264)
Dividends on preferred stock	(1,562)		(4,686)	
Funds from Operations (FFO)	5,627	4,948	10,909	8,502
Amortization of intangibles related to purchase accounting, net of income tax benefit	231	374	694	1,121
Funds from Operations Modified (FFOM)	\$ 5,858	\$ 5,322	\$ 11,603	\$ 9,623

FFOM attributable to Property Operations, net of intersegment eliminations

The following is a summary of FFOM attributable to the Property Operations segment, net of intersegment eliminations, for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	For the Three Months Ended	
	September	September
	30,	30,
	2011	2010
Rental revenue, net of intersegment eliminations of \$0 in 2011 and \$23 in 2010	\$ 24,762	\$ 22,765
Property management and other fee revenue	789	809
Property operating and management expenses	(10,046)	(9,067)
Interest and other income	136	145
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	1	6
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(677)	(476)
FFOM, net of intersegment eliminations	14,965	14,182
Intersegment eliminations		23

FFOM	\$	14,965	\$	14,205
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	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Rental revenue, net of intersegment eliminations of \$0 in 2011 and \$69 in 2010	\$ 70,952	\$ 65,004
Property management and other fee revenue	2,325	2,388
Property operating and management expenses	(28,675)	(25,652)
Interest and other income	444	419
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	19	14
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(1,681)	(1,571)
Income from discontinued operations, before gain on sale		9
FFOM, net of intersegment eliminations	43,384	40,611
Intersegment eliminations		69
FFOM	\$ 43,384	\$ 40,680

See Note 5 in the accompanying Notes to Condensed Consolidated Financial Statements in this Form 10-Q for a reconciliation of above segment FFOM to net income (loss).

Table of Contents

For the three and nine months ended September 30, 2011, FFOM attributable to Property Operations, net of intersegment eliminations, increased \$0.8 million, or 5.5%, and \$2.8 million, or 6.8%, respectively, compared to the same periods last year. The increase in rental revenue is primarily due to the addition of seven properties, as well as increases in rental rates associated with CPI increases and reimbursable expenses. The increase in property operating and management expenses are primarily due to the addition of the seven new properties.

FFOM attributable to Design-Build and Development, net of intersegment eliminations

The following is a summary of FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	For the Three Months Ended	
	September 30, 2011	September 30, 2010
Design-Build contract revenue and other sales, net of intersegment eliminations of \$12,453 in 2011 and \$3,193 in 2010	\$ 21,619	\$ 15,734
Development management and other income, net of intersegment eliminations of \$281 in 2011 and \$2,289 in 2010	7	1
Design-Build contract and development management expenses, net of intersegment eliminations of \$12,568 in 2011 and \$5,159 in 2010	(18,567)	(13,806)
Selling, general, and administrative expenses, net of intersegment eliminations of \$0 in 2011 and \$23 in 2010	(3,449)	(4,203)
Depreciation and amortization	(270)	(247)
FFOM, excluding litigation gains and losses, net of intersegment eliminations	(660)	(2,521)
Intersegment eliminations	166	300
FFOM, excluding litigation gains and losses	(494)	(2,221)
Impact of litigation gains and losses:		
Litigation gain provision	339	
Litigation gain settlement	500	
FFOM	\$ 345	\$ (2,221)

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Design-Build contract revenue and other sales, net of intersegment eliminations of \$35,098 in 2011 and \$15,950 in 2010	\$ 54,500	\$ 66,406
Development management and other income, net of intersegment eliminations of \$1,616 in 2011 and \$5,322 in 2010	122	122
Design-Build contract and development management expenses, net of intersegment eliminations of \$35,074 in 2011 and \$18,721 in 2010	(47,557)	(49,832)
Selling, general, and administrative expenses, net of intersegment eliminations of \$0 in 2011 and \$69 in 2010	(10,311)	(12,652)
Interest and other income	16	3
Depreciation and amortization	(825)	(704)

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FFOM, excluding litigation gains and losses and impairment charges; net of intersegment eliminations	(4,055)	3,343
Intersegment eliminations	1,640	2,482
FFOM, excluding litigation gains and losses and impairment charges	(2,415)	5,825
Impact of litigation gains and losses and impairment charges:		
Litigation loss provision	(1,461)	
Litigation gain settlement	500	
Goodwill and intangible asset impairment charges		(13,635)
FFOM	\$ (3,376)	\$ (7,810)

See Note 5 in the accompanying Notes to Condensed Consolidated Financial Statements in this Form 10-Q for a reconciliation of above segment FFOM to net income (loss).

For the three months ended September 30, 2011, FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, excluding litigation gains and losses, increased \$1.9 million, or 73.8% compared to the same period last year. The increase is due to more active revenue generating third-party design-build construction projects for these three month comparative periods.

Table of Contents

Design-Build contract revenue and other sales, net of intersegment eliminations, increased \$5.9 million, or 37.4%, for the three months ended September 30, 2011 compared to the same period last year. At September 30, 2011 and 2010, we had eight and six active third party revenue generating design-build construction projects, respectively. The increase is primarily due to timing of work performed on those projects during the respective quarters and the size of the active third party projects.

For the nine months ended September 30, 2011, FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, excluding litigation gains and losses and impairment charges, decreased \$7.4 million, or 221.3% compared to the same period last year. The decrease is due to fewer active revenue generating third-party design-build construction projects, for these nine month comparative periods, and lower total gross margin percentage.

Design-Build Revenues decreased \$11.9 million, or 17.9%, for the nine months ended September 30, 2011, compared to the same period last year. Included in 2010 revenue was \$9.8 million related to an agreement for design services only. There were no similar design services only agreements in the current period.

Intersegment Design-Build Revenues increased \$9.3 million, or 290.0%, and \$19.1 million, or 120.1%, for the three and nine months ended September 30, 2011, respectively, compared to the same periods last year. The number of projects under construction for our ownership has increased from two at September 2010 to three at September 2011. Additionally, there was an increased number of tenant improvement projects for operating buildings performed in 2011 compared to 2010.

For the three and nine months ended September 30, 2011, gross margin percentage (Design-Build Revenues less design-build contract and development management expenses and as a percent of revenues) increased from 12.3% to 14.1% for the three months periods and decreased from 25.0% to 12.7% for the nine months periods. The increase for the three months ended September 30, 2011, is primarily due to costs being absorbed by more projects due to the higher volume of active projects in 2011 compared to 2010. The decrease for the nine months ended September 30, 2011, is primarily due to the gross margin on the \$9.8 million revenue discussed in the Design-Build Revenues paragraph above having a greater than normal gross margin because it was an analysis and design agreement that utilized our engineering and architectural professionals and no construction sub-contractors.

For the three and nine months ended September 30, 2011, selling, general, and administrative expenses attributable to the Design-Build and Development segment decreased \$0.8 million, or 17.9%, and \$2.3 million, or 18.5%, respectively, as compared to the same periods last year. This decrease is primarily due to severance charges related to a reduction in force that occurred in June 2010.

Litigation Activity

During the three and nine months ended September 30, 2011, an arbitrator awarded \$2.5 million to plaintiffs in a case in which we were named as the defendant. We had previously recorded a \$2.8 million accrual for this litigation. During the third quarter we reversed \$0.3 million of the litigation accrual and paid the \$2.5 million award.

In a separate case in which we were the plaintiff, we settled with the defendant for \$0.5 million in cash which we received during the three and nine months ended September 30, 2011. We recorded a litigation gain of \$0.5 million.

Selling, general, and administrative

For the three and nine months ended September 30, 2011, selling, general, and administrative expenses decreased \$1.5 million, or 22.2%, and \$3.6 million, or 16.6%, respectively, as compared to the same periods last year. Excluding the changes attributable to the Design-Build and Development segment, which are discussed above, selling, general and administrative expenses decreased \$0.4 million and \$2.7 million, respectively. The \$2.7 million decrease is primarily due to a non-recurring compensation expense in the three months ended June 30, 2010, associated with the retirement of the Company's Chief Executive Officer.

Depreciation and amortization

For the three months ended September 30, 2011, depreciation and amortization expenses increased \$0.3 million, or 4.0%, as compared to the same period last year. For the nine months ended September 30, 2011, depreciation and amortization expenses decreased \$0.1 million, or 0.5%, respectively, as compared to the same period last year. These changes are primarily due to the timing of a decrease in the amortization of intangible assets due to these assets becoming fully amortized, offset by the addition of seven new properties.

Table of Contents***Interest expense***

For the three and nine months ended September 30, 2011, interest expense decreased \$0.3 million, or 4.9%, and \$0.9 million, or 5.5%, respectively, as compared to the same periods last year. This decrease is primarily due to the repayment of a \$50.0 million term loan in December 2010, offset by interest on notes payable for the properties that became operational or were acquired in 2011 and 2010.

Impairment charge

We review the value of goodwill and intangible assets on an annual basis and when circumstances indicate a potential impairment may exist. For the three months ended September 30, 2011, we performed step one of the impairment analysis due to potential indicators of impairment, including a decrease in the market value of comparable engineering and construction companies and a decrease in our stock price. We concluded that there was no impairment and a step two analysis was not necessary. For the nine months ended September 30, 2010, we performed a review and recorded a pre-tax, non-cash impairment charge of \$13.6 million and recognized a non-cash income tax benefit of \$2.8 million, resulting in a non-cash, after-tax impairment charge of \$10.8 million.

Income tax benefit (expense)

For the three and nine months ended September 30, 2011, income tax benefit decreased \$2.3 million, or 101.4%, and \$5.8 million, or 101.2%, respectively, as compared to the same periods last year. We record income taxes associated with our taxable REIT subsidiaries (TRSs), which include our Design-Build and Development business segment. During 2010, we recorded an income tax benefit due to the net losses incurred by the Design-Build and Development segment and did not record a deferred tax asset valuation allowance. During 2011, the income tax benefit associated with the net losses incurred by the Design-Build and Development segment was fully offset by a deferred tax asset valuation allowance.

Cash Flows

Cash provided by operating activities increased \$17.0 million, or 121.6%, for the nine months ended September 30, 2011, as compared to the same period last year, and is summarized below (in thousands):

	For the Nine Months Ended	
	September	September 30,
	30,	2010
	2011	
Net loss plus non-cash adjustments	\$ 19,045	\$ 20,664
Changes in operating assets and liabilities	12,010	(6,652)
Net cash provided by operating activities	\$ 31,055	\$ 14,012

The net loss plus non-cash adjustments decreased \$1.6 million, or 7.8%, for the nine months ended September 30, 2011, as compared to the same period last year. This decrease is primarily due to decreased net income after non-cash adjustments for the Design-Build and Development segment offset by increased net income after non-cash adjustments for the Property Operations segment. The changes in operating assets and liabilities increased \$18.7 million for the nine months ended September 30, 2011, as compared to the same period last year. This increase is primarily due to 1) stabilization of active design-build projects which resulted in the stabilization of design-build billings in excess of costs and estimated earnings on uncompleted contracts as compared to the same period last year where there was a significant decrease in billing in excess of costs and estimated earnings and 2) an increase in tenant funding responsibility for development projects.

Cash used in investing activities increased \$45.1 million, or 115.7%, for the nine months ended September 30, 2011, as compared to the same period last year. The increase resulted from our current year acquisitions, having more development projects under construction in the current period compared to the same period last year, and increased second generation leasing activity.

Table of Contents

Investment in real estate properties consisted of the following for the nine months ended September 30, 2011 and 2010 (in thousands):

	For the Nine Months Ended	
	September 30, 2011	September 30, 2010
Development, redevelopment, and acquisitions	\$ 77,723	\$ 29,757
Second generation tenant improvements	7,567	2,703
Recurring property capital expenditures	2,213	365
Investment in real estate properties	\$ 87,503	\$ 32,825

Cash provided by financing activities increased by \$41.8 million for the nine months ended September 30, 2011, as compared to same period last year. The change is primarily due to net proceeds drawn down from the Credit Facility of \$37.0 million and the addition of a term loan of \$80.8 million, offset by net mortgage note repayments of \$45.8 million, an increase in financing costs of \$3.8 million, and dividends to preferred shareholders of \$4.4 million for the nine months ended September 30, 2011, compared to net debt repayments of \$15.0 million in the nine months ended September 30, 2010. The change across years was also offset by a decrease in equity net proceeds of \$39.4 million.

Construction in Progress

Construction in progress consisted of the following as of September 30, 2011 (dollars in thousands):

Property	Location	Estimated Completion Date	Net Rentable Square Feet	Investment to Date⁽¹⁾	Estimated Total Investment
Good Sam MOB Investors, LLC	Puyallup, WA	4Q 2011	80,000	\$ 20,329	\$ 24,700
St. Lukes Medical Office Building	Duluth, MN	3Q 2012	176,000	6,183	27,800

⁽¹⁾ Represents our investment in the project before intersegment eliminations.

Liquidity and Capital Resources

In addition to amounts available under the Credit Facility, as of September 30, 2011, we had approximately \$16.0 million available in cash and cash equivalents.

On March 1, 2011, we amended and restated the secured revolving credit facility (Credit Facility). This \$200.0 million Credit Facility is held with a syndicate of financial institutions. The Credit Facility is available to (1) fund working capital and for other general corporate purposes, (2) finance acquisition and development activity, and (3) to refinance existing and future indebtedness. The Credit Facility permits us to borrow, subject to borrowing base availability, up to \$200.0 million of revolving loans, with sub-limits of \$25.0 million for swingline loans and \$25.0 million for letters of credit. As of September 30, 2011, the maximum available borrowings under the Credit Facility was \$121.5 million, with \$82.0 million drawn, based on 70% of the value of the aggregate property pledged as collateral. We have the ability to increase the availability by pledging additional unencumbered property to the Credit Facility.

The Credit Facility also allows for up to \$150.0 million of increased availability (to a total aggregate available amount of \$350.0 million), at our request but subject to each lender's option to increase its commitment. The interest rate on loans under the Credit Facility equals, at our election, either (1) LIBOR (0.24% as of September 30, 2011) plus a margin of between 275 to 350 basis points based on our total leverage ratio (3.25% as of September 30, 2011) or

(2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (3.25% as of September 30, 2011) plus a margin of between 175 to 250 (2.25% as of September 30, 2011) basis points based on our total leverage ratio.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth (\$237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00). Additionally, provisions in the Credit Facility indirectly prohibit us from redeeming or otherwise repurchasing any shares of our stock, including our preferred stock.

Table of Contents

The Credit Facility has the following financial covenants as of September 30, 2011 (dollars in thousands):

Financial Covenant	September 30, 2011
Maximum total leverage ratio (0.65 to 1.00 through March 31, 2013, and 0.60 to 1.00 thereafter)	0.53 to 1.00
Maximum secured recourse indebtedness ratio (0.15 to 1.00)	0.05 to 1.00
Minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter)	1.55 to 1.00
Minimum consolidated tangible net worth (\$237,106 plus 80% of the net proceeds of equity issuance after March 1, 2011)	\$ 284,909
Minimum facility interest coverage ratio (1.50 to 1.00)	6.95 to 1.00

As of September 30, 2011, we were in compliance with all of our debt covenants.

Short-Term Liquidity Needs

We believe that we will have sufficient capital resources from cash flow from continuing operations, cash and cash equivalents, and borrowings under the Credit Facility to fund ongoing operations and distributions required to maintain REIT compliance over the next 12 months. We anticipate using our cash flow from continuing operations, cash and cash equivalents, and Credit Facility availability to fund our business operations, cash dividends and distributions, debt amortization, and recurring capital expenditures. Capital requirements for significant acquisitions and development projects may require funding from borrowings, equity, and/or debt offerings.

On August 2, 2011, we closed on an \$80.8 million term loan facility to refinance mortgages that mature through December 2012 and to finance recent acquisitions. The facility is for a three year term with one, one-year extension option and contains an accordion feature to expand the facility to a total of \$150 million. Covenants for the facility are consistent with those for our \$200 million secured revolving credit facility, with an additional debt service coverage ratio covenant. Repayment is interest only based on our overall leverage ranging from LIBOR plus 3.25% to LIBOR plus 4.00%. Security for the facility is a pledge of our ownership interests in the underlying properties.

As of September 30, 2011, we had no outstanding equity commitments to unconsolidated real estate partnerships.

On September 9, 2011, we announced that our Board of Directors had declared a quarterly dividend of \$0.10 per common share and OP Unit that was paid in cash on October 19, 2011 to holders of record on September 23, 2011.

On November 3, 2011, we announced that our Board of Directors declared a quarterly dividend of \$0.53125 per share on our Series A preferred shares for the period September 1, 2011 to November 30, 2011. The dividend will be paid on December 1, 2011, to holders of record on November 17, 2011.

Long-Term Liquidity Needs

Our principal long-term liquidity needs consist primarily of new property development, property acquisitions, and principal payments under various mortgages and other credit facilities and non-recurring capital expenditures. We do not expect that our cash flow from continuing operations, cash and cash equivalents, and borrowings under the Credit Facility will be sufficient to meet all of these long-term liquidity needs. Instead, we expect to meet long-term liquidity requirements through cash flow from continuing operations, cash and cash equivalents, and borrowings under the Credit Facility and through additional equity and debt financings, including loans from banks, institutional investors or other lenders, bridge loans, letters of credit, and other lending arrangements, most of which will be secured by mortgages. We may also issue unsecured debt in the future.

Table of Contents

We expect to finance new property developments through cash equity capital together with construction loan proceeds, as well as through cash equity investments by our tenants or third parties. We intend to have construction financing agreements in place before construction begins on development projects.

We expect to fund property acquisitions through a combination of borrowings under our Credit Facility, traditional secured mortgage financing, unsecured borrowings, and equity offerings. In addition, we may use OP Units issued by the Operating Partnership to acquire properties from existing owners seeking a tax deferred transaction.

We do not, in general, expect to meet our long-term liquidity needs through dispositions of our properties. In the event that we were to sell any of our properties in the future, depending on which property were to be sold, we may need to structure the sale or disposition as a tax deferred transaction which would require the reinvestment of the proceeds from such transaction in another property or the proceeds that would be available from such sales may be reduced by amounts that we may owe under the tax protection agreements entered into in connection with our formation transactions and certain property acquisitions. In addition, our ability to sell certain of our assets could be adversely affected by the general illiquidity of real estate assets and certain additional factors particular to our portfolio such as the specialized nature of its target property type, property use restrictions and the need to obtain consents or waivers of rights of first refusal or rights of first offers from ground lessors in the case of sales of its properties that are subject to ground leases.

We intend to repay indebtedness incurred under our Credit Facility from time to time, for acquisitions or otherwise, out of cash flow from operations and from the proceeds, to the extent possible and desirable, of additional debt or equity issuances. In the future, we may seek to increase the amount of the Credit Facility, negotiate additional credit facilities or issue corporate debt instruments. Any indebtedness incurred or issued may be secured or unsecured, short-, medium- or long-term, fixed or variable interest rate and may be subject to other terms and conditions we deem acceptable. We generally intend to refinance at maturity the mortgage notes payable that have balloon payments at maturity.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2011, including the maturities and scheduled principal repayments and the commitments due in connection with our ground leases and operating leases for the periods indicated (in thousands):

	Remainder of 2011	2012	2013	2014	2015	Thereafter	Total
Obligation:							
Long-term debt principal payments and maturities ⁽¹⁾	\$ 14,629	\$ 20,664	\$ 15,871	\$ 226,933	\$ 21,632	\$ 134,480	\$ 434,209
Standby letters of credit ⁽²⁾	7,954						7,954
Interest payments ⁽³⁾	4,194	16,037	15,180	11,023	7,464	13,722	67,620
Ground and air rights leases ⁽⁴⁾	240	1,059	1,059	1,060	1,060	25,424	29,902
Operating leases ⁽⁵⁾	1,356	5,079	4,036	3,540	3,508	21,008	38,527
Total	\$ 28,373	\$ 42,839	\$ 36,146	\$ 242,556	\$ 33,664	\$ 194,634	\$ 578,212

(1) Includes notes payable under the Credit Facility.

(2) As collateral for performance, we are contingently liable under standby letters of credit, which also reduces the availability under the Credit Facility.

(3) Assumes one-month LIBOR of 0.24% and a Prime Rate of 3.25%, which were the rates as of September 30, 2011.

- (4) Substantially all of the ground and air rights leases effectively limit our control over various aspects of the operation of the applicable property, restrict our ability to transfer the property and allow the lessor the right of first refusal to purchase the building and improvements. All of the ground leases provide for the property to revert to the lessor for no consideration upon the expiration or earlier termination of the ground or air rights lease.
- (5) Payments under operating lease agreements relate to equipment and office space leases. The future minimum lease commitments under these leases are as indicated.

Table of Contents

Off-Balance Sheet Arrangements

We may guarantee debt in connection with certain of our development activities, including unconsolidated joint ventures, from time to time. As of September 30, 2011, we did not have any such guarantees or other off-balance sheet arrangements outstanding.

Real Estate Taxes

Our leases generally require the tenants to be responsible for all real estate taxes.

Inflation

Our leases at wholly-owned and consolidated real estate partnership properties generally provide for either indexed escalators, based on CPI or other measures, or to a lesser extent fixed increases in base rents. The leases also contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes. We believe that inflationary increases in expenses will be offset, in part, by the contractual rent increases and tenant expense reimbursements described above.

Seasonality

Business under the Design-Build and Development segment can be subject to seasonality due to weather conditions at construction sites. In addition, construction starts and contract signings can be impacted by the timing of budget cycles at healthcare systems and providers.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update, codified in Accounting Standards Codification (ASC) 820, Fair Value Measurement, which increases the disclosures around assets and liabilities measured at fair value. Entities will be required to disclose any significant transfers between Levels 1 and 2 of the fair value hierarchy, provide additional quantitative and qualitative information regarding fair value measurements categorized as Level 3 of the fair value hierarchy, and include the hierarchy classification for items whose fair value is not recorded on their consolidated balance sheets but are disclosed in their notes. This will become effective for fiscal years beginning after December 15, 2011.

In September 2011, the FASB issued an accounting standard update, codified in ASC 220, Comprehensive Income, which changes the presentation of comprehensive income. Entities will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This will become effective for fiscal years beginning after December 15, 2011.

In September 2011, the FASB issued an accounting standards update, codified in ASC 350, Intangibles-Goodwill and Other. While this amendment does not change the calculation of goodwill impairment, it simplifies how companies test goodwill for impairment. Under this amendment, a company would be permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the fair value of a reporting unit is more than the carrying account, it is not necessary to perform the two-step goodwill impairment test described in ASC 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. This will become effective for fiscal years beginning after December 15, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use some derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with financial institutions based on their credit rating and other factors.

As of September 30, 2011, we had \$434.2 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of our total consolidated debt outstanding, \$184.0 million, or 42.4%, was variable

rate debt that is not subject to variable to fixed rate interest rate swap agreements, and total indebtedness, \$250.2 million, or 57.6%, was subject to fixed interest rates, including variable rate debt that is subject to variable to fixed rate swap agreements. The weighted average interest rate for fixed rate debt was 6.1% as of September 30, 2011. If LIBOR were to increase by 100 basis points based on September 30, 2011, one-month LIBOR of 0.24%, the increase in interest expense on our September 30, 2011 variable rate debt would decrease future annual earnings and cash flows by approximately \$1.8 million. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that as of September 30, 2011, our disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

During the three months ended September 30, 2011, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not involved in any material litigation nor, to our knowledge, is any material litigation pending or threatened against it, other than routine litigation arising out of the ordinary course of business or which is expected to be covered by insurance and not expected to harm our business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

See our Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant changes to our risk factors during the nine months ended September 30, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- | | |
|------|---|
| 10.1 | Amendment to Amended and Restated Employment Agreement, dated September 23, 2011, by and among Cogdell Spencer Inc., Cogdell Spencer LP and Charles M. Handy. |
| 10.2 | Amendment No. 1 to Credit Agreement, dated as of November 1, 2011, by and among Cogdell Spencer LP, Cogdell Spencer Inc., and Each Lender Party thereto. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial information from Cogdell Spencer Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 filed with the Securities and Exchange Commission on November 8, 2011, formatted in XBRL includes: (i) Condensed Consolidated Statements of Operations for the fiscal periods ended September 30, 2011 and September 30, 2010, (ii) Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, (iii) Condensed Consolidated Statements of Changes in Equity for the fiscal periods ended September 30, 2011 and September 30, 2010 (iv) Condensed Consolidated Cash Flow Statements for the fiscal periods ended September 30, 2011 and September 30, 2010, and (v) the Notes to the Condensed Consolidated Financial Statements.* |

- * Submitted electronically herewith. Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGDELL SPENCER INC.

Registrant

Date: November 8, 2011

/s/ Raymond W. Braun

Raymond W. Braun

President and Chief Executive Officer

Date: November 8, 2011

/s/ Charles M. Handy

Charles M. Handy

Executive Vice President and Chief Financial Officer