

Cogdell Spencer Inc.
Form 10-Q
November 10, 2008

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, 2008

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (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: 17,562,322 shares of common stock, par value \$.01 per share, outstanding as of November 6, 2008.

TABLE OF CONTENTS

		Page
<u>PART</u>		
<u>I</u>	<u>FINANCIAL INFORMATION</u>	2
<u>Item 1</u>	<u>Financial Statements</u>	2
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
<u>Item 4</u>	<u>Controls and Procedures</u>	38
<u>PART</u>		
<u>II</u>	<u>Other Information</u>	39
<u>Item 1</u>	<u>Legal Proceedings</u>	39
<u>Item</u>		
<u>1A</u>	<u>Risk Factors</u>	39
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	39
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	39
<u>Item 5</u>	<u>Other Information</u>	39
<u>Item 6</u>	<u>Exhibits</u>	39
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</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, 2008	December 31, 2007
Assets		
Real estate properties:		
Land	\$ 30,673	\$ 30,673
Buildings and improvements	498,822	455,606
Less: Accumulated depreciation	(63,154)	(44,596)
Net operating real estate properties	466,341	441,683
Construction in progress	10,672	13,380
Net real estate properties	477,013	455,063
Cash and cash equivalents	10,637	3,555
Restricted cash	18,388	1,803
Tenant and accounts receivable, net of allowance of \$154 in 2008 and \$19 in 2007	42,924	2,249
Goodwill and intangible assets, net of accumulated amortization of \$32,776 in 2008 and \$18,728 in 2007	308,423	31,589
Other assets	27,689	11,978
Total assets	\$ 885,074	\$ 506,237
Liabilities and stockholders equity		
Mortgage notes payable	\$ 234,497	\$ 237,504
Revolving credit facility	90,000	79,200
Term loan	100,000	
Accounts payable	23,185	5,817
Billings in excess of costs and estimated earnings on uncompleted contracts	27,616	
Deferred income taxes	40,302	217
Payable to Erdman shareholders	24,003	
Other liabilities	47,751	21,243
Total liabilities	587,354	343,981
Commitments and contingencies		
Minority interests in real estate partnerships	6,205	2,434
Minority interests in operating partnership	89,885	44,787
Stockholders equity:		
Preferred stock, \$0.01 par value; 50,000 shares authorized, none issued or outstanding	176	119

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Common Stock; \$0.01 par value; 200,000 shares authorized, 17,563 and 11,948 shares issued and outstanding in 2008 and 2007, respectively		
Additional paid-in capital	273,635	166,901
Accumulated other comprehensive income (loss)	235	(1,234)
Accumulated deficit	(72,416)	(50,751)
Total stockholders' equity	201,630	115,035
Total liabilities and stockholders' equity	\$ 885,074	\$ 506,237

See notes to condensed consolidated financial statements.

2

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 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenues:				
Rental revenue	\$ 19,631	\$ 16,399	\$ 57,622	\$ 45,344
Design-Build contract revenue and other sales	72,914		174,870	
Property management and other fees	852	874	2,524	2,644
Development management and other income	622	25	751	276
Total revenues	94,019	17,298	235,767	48,264
Expenses:				
Property operating and management	8,370	6,797	23,403	18,766
Costs related to design-build contract revenue and other sales	59,578		146,907	
Selling, general, and administrative	7,599	1,532	20,396	5,296
Depreciation and amortization	11,871	7,273	33,275	20,664
Total expenses	87,418	15,602	223,981	44,726
Income from operations before other income (expense), income tax expense (benefit), minority interests in real estate partnerships, and minority interests in operating partnership	6,601	1,696	11,786	3,538
Other income (expense):				
Interest and other income, net	210	183	682	763
Interest expense	(6,743)	(4,101)	(18,695)	(11,324)
Equity in earnings (loss) of unconsolidated real estate partnerships	10	2	18	(2)
Total other income (expense)	(6,523)	(3,916)	(17,995)	(10,563)
Income (loss) from operations before income tax expense (benefit), minority interests in real estate partnerships, and minority interests in operating partnership	78	(2,220)	(6,209)	(7,025)
Income tax (expense) benefit	(883)	19	(143)	(151)
	(805)	(2,201)	(6,352)	(7,176)

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Loss from operations before minority interests
in real estate partnerships, and minority
interests in operating partnership

Minority interests in real estate partnerships	(920)	(16)	(859)	(55)
Minority interests in operating partnership	639	615	2,480	2,226
Net loss	\$ (1,086)	\$ (1,602)	\$ (4,731)	\$ (5,005)
Net loss per share basic and diluted	\$ (0.07)	\$ (0.13)	\$ (0.31)	\$ (0.47)
Weighted average common shares basic and diluted	15,747	11,934	15,170	10,755

See notes to condensed consolidated financial statements.

3

Table of Contents

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

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2007	11,948	\$ 119	\$ 166,901	\$ (1,234)	\$ (50,751)	\$ 115,035
Comprehensive loss:						
Net loss					(4,731)	(4,731)
Unrealized gain on interest rate swaps				1,469		1,469
Comprehensive loss						(3,262)
Issuance of common stock, net of costs	5,609	57	91,288			91,345
Restricted stock grants	6		94			94
Amortization of restricted stock grants			47			47
Dividends to common stockholders					(16,934)	(16,934)
Adjustment to record change of interest in the operating partnership due to the issuance of operating partnership units in excess of book value			15,305			15,305
Balance at September 30, 2008	17,563	\$ 176	\$ 273,635	\$ 235	\$ (72,416)	\$ 201,630

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	September
	30,	30,
	2008	2007
Operating activities:		
Net loss	\$ (4,731)	\$ (5,005)
Adjustments to reconcile net loss to cash provided by operating activities:		
Minority interests	(1,621)	(2,171)
Depreciation and amortization	33,275	20,664
Amortization of acquired above market leases and acquired below market leases, net	(533)	(529)
Straight line rental revenue	(422)	(237)
Amortization of deferred financing costs and debt premium	878	186
Deferred income taxes	(468)	
Equity-based compensation	1,110	158
Equity in loss (earnings) of unconsolidated real estate partnerships	(18)	2
Changes in operating assets and liabilities:		
Tenant and accounts receivable and other assets	13,650	(852)
Accounts payable and other liabilities	(7,042)	5,330
Billings in excess of costs and estimated earnings on uncompleted contracts	(9,518)	
Net cash provided by operating activities	24,560	17,546
Investing activities:		
Business acquisition, net of cash acquired	(130,264)	
Investment in real estate properties, net of cash assumed	(38,633)	(91,868)
Purchase of minority interests in operating partnership	(754)	(3,807)
Proceeds from sales-type capital lease	230	229
Purchase of corporate equipment	(1,068)	(502)
Distributions received from unconsolidated real estate partnerships	5	4
Increase in restricted cash	(16,585)	(329)
Net cash used in investing activities	(187,069)	(96,273)
Financing activities:		
Proceeds from mortgage notes payable	8,087	65,941
Repayments of mortgage notes payable	(13,733)	(16,714)
Proceeds from revolving credit facility	110,500	49,300
Repayments to revolving credit facility	(99,700)	(80,687)
Proceeds from term loan	100,000	
Net proceeds from sale of common stock	91,344	78,443
Dividends and distributions	(22,831)	(15,919)
Equity contributions by partners in consolidated real estate partnerships	517	1,304
Distributions to minority interests in real estate partnership	(963)	(117)
Payment of deferred financing costs	(3,630)	(669)

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Net cash provided by financing activities	169,591	80,882
Increase in cash and cash equivalents	7,082	2,155
Balance at beginning of period	3,555	1,029
Balance at end of period	\$ 10,637	\$ 3,184

Supplemental disclosure of cash flow information:

Cash paid for interest, net of capitalized interest	\$ 17,596	\$ 11,792
Cash paid for income taxes	\$ 3,039	\$ 307

Noncash investing and financing activities:

Operating Partnership Units issued or to be issued in connection with the acquisition of a business or real estate property	81,673	3,583
Debt assumed with purchase of property	2,733	
Minority interest assumed with purchase of property	3,359	
Investment in real estate costs contributed by partner in a consolidated real estate partnership		460
Accrued dividends and distributions	9,379	5,779

See notes to condensed consolidated financial statements.

Table of Contents

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

1. Business Description

Cogdell Spencer Inc. (the Company), incorporated in Maryland in 2005, is a fully-integrated, self-administered, and self-managed real estate investment trust (REIT) that invests in specialty office buildings for the medical profession, including medical offices and ambulatory surgery and diagnostic centers. The Company focuses on the ownership, development, redevelopment, acquisition, and management of strategically located medical office buildings and other healthcare related facilities in the United States of America. The Company has been built around understanding and addressing the specialized real estate needs of the healthcare industry.

On March 10, 2008, the Company and its operating partnership, Cogdell Spencer LP (the Operating Partnership), completed a merger transaction through which they acquired MEA Holdings, Inc. (MEA) which wholly owns Marshall Erdman & Associates, Inc. (now, Erdman, A Cogdell Spencer Company) (Erdman). Erdman is a market-leading provider of advance planning and design-build services for healthcare facilities throughout the United States of America. Erdman's service offerings include advance planning, architecture, engineering, and construction. Combined, the Company is a fully integrated healthcare facilities solutions company providing services from conceptual planning to long-term ownership and property management.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The Company reviews its interests in entities to determine if the entity's assets, liabilities, noncontrolling interests and results of activities should be included in the consolidated financial statements in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities, Emerging Issues Task Force (EITF) 04-5 Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights and Accounting Research Bulletin No. 51, Consolidated Financial Statements.

Interim Financial Information

The financial information for the three and nine months ended September 30, 2008 and 2007 is unaudited, but includes all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for such periods. Operating results for the three and nine months ended September 30, 2008 and 2007 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal years of 2008 or 2007 or any other future period. These condensed consolidated financial statements do not include all disclosures required by GAAP for annual consolidated financial statements. The Company's audited consolidated financial statements are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Significant estimates

Table of Contents

and assumptions are used by management in determining the percentage of completion revenue, useful lives of real estate properties and improvements, and the initial valuations and underlying allocations of purchase price in connection with business and real estate property acquisitions. Actual results may differ from those estimates.

Revenue Recognition

Rental Revenue and Property Management. Rental income related to non-cancelable operating leases is recognized as earned over the term, which is the period from the date the lessee has access and control over the leased space to the lease termination date, of the lease agreements on a straight-line basis. Rental income recognized on a straight-line basis for certain lease agreements results in recognized revenue greater than or less than amounts contractually due from tenants. In addition, the leases generally contain provisions under which the tenants reimburse the Company for a portion of property operating expenses and real estate taxes. At times the Company will receive cash payments at the inception of the lease for tenant improvements and these amounts are amortized into rental revenue over the life of the lease. These amounts are included in *Other liabilities* in the consolidated balance sheets. The Company monitors the creditworthiness of its tenants on a regular basis and maintains an allowance for doubtful accounts.

The Company receives fees for property management and related services provided to third parties which are reflected as management fee revenue. Management fees are generally based on a percentage of revenues for the month as defined in the related property management agreements. The Company pays certain payroll and related costs related to the operations of third party properties that are managed by the Company. Under terms of the related management agreements, these costs are reimbursed by the third party property owners. The amounts billed to the third party owners are recognized as revenue in accordance with EITF 01-14, *Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred*.

Design-Build Contract Revenues and Development Management. Design-Build contract revenue is recognized under the percentage-of-completion method of accounting in accordance with American Institute of Certified Public Accountants *Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Revenues are determined by measuring the percentage of costs incurred to date to estimated total costs for each design-build contract based on current estimates of costs to complete. Contract costs include all labor and benefits, materials, subcontracts, and an allocation of indirect costs related to contract performance such as architectural, engineering, and construction management. Indirect costs are allocated to projects based upon labor hours charged. As long-term design-build projects extend over one or more years, revisions in cost and estimate 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 the consolidated financial statements. Change orders are recognized when they are approved by the client.

Costs and estimated earnings in excess of billings on uncompleted design-build projects (*underbillings*) are included in *Other assets* in the consolidated balance sheets. Billings in excess of costs and estimated earnings on uncompleted design-build projects (*overbillings*) are included in liabilities in the consolidated balance sheets. Customers are billed on a monthly basis at the end of each month. As a result, typically the Company generates billings in excess of costs and estimated earnings on design-build projects.

Revenue from project analysis and design agreements is accounted for on the completed contract method. Costs in excess of billings and billings in excess of costs on project analysis and design agreements are included with design-build projects over and underbillings in the consolidated balance sheets. Revenue from development agreements is recognized as earned per the agreements and costs are expensed as incurred.

Gains on Disposition of Real Estate. The Company recognizes sales of real estate properties upon closing and meeting the criteria for a sale under Financial Accounting Standards Board *Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for Sales of Real Estate (SFAS 66)*. Payments received from purchasers prior to closing are recorded as deposits. Profit on real estate sold is recognized using the full accrual method upon closing when the collectibility of the sales price is reasonably assured and the Company is not obligated to perform significant activities after the sale. This includes the buyer's initial and continuing investments being adequate to demonstrate a commitment to pay for the property and the Company not having substantial

Table of Contents

continuing involvement whereby the usual risks and rewards of ownership would not be transferred to the buyer. Profit may be deferred in whole or part until the sales meet the requirements of profit recognition on sales of real estate under SFAS 66.

Other income. Other income on the Company's statement of operations generally includes income incidental to the operations of the Company and is recognized when earned. Interest and other income includes the amortization of unearned income related to a sales-type capital lease.

Income Taxes

The Company elected to be taxed as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement that 90% of ordinary taxable income be distributed. As a REIT, the Company will generally not be subject to U.S. federal income tax to the extent that it meets the organization and operational requirements and distributions equal or exceed taxable income. For all periods subsequent to the REIT election, the Company has met the organization and operational requirements and distributions exceeded net taxable income. Accordingly, no provision has been made for federal and state income taxes, except as follows.

The Company, together with Cogdell Spencer Advisors, LLC (CSA, LLC), wholly-owned by the Operating Partnership, have jointly elected for CSA, LLC to be treated as a taxable REIT subsidiary (a TRS). Consera Healthcare Real Estate, LLC has been reorganized and is now a wholly-owned subsidiary of CSA, LLC. The Company, together with MEA, wholly-owned by the Operating Partnership and the parent company of Erdman, have also jointly elected for MEA to be treated as a TRS (Erdman TRS). As TRSs, the operations of CSA, LLC and MEA are generally subject to corporate income taxes.

The Company's TRSs account for their income taxes based on the requirements of SFAS No. 109, Accounting for Income Taxes (SFAS 109), which includes an estimate of the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The calculation of the TRSs' tax provision may require interpreting tax laws and regulations and could result in the use of judgments or estimates which could cause their recorded tax liability to differ from the actual amount due. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The TRSs periodically assess the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, or federal statutory tax audits or estimates and judgments used.

Effective January 1, 2007, the Company and the TRSs began applying the provisions of the FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 for measuring and recognizing tax benefits associated with uncertain tax positions. Penalties and interest, if incurred, would be recorded as a component of income tax expense. There were no penalties or interest recorded during the three and nine months ended September 30, 2008 and 2007. The Company and the TRSs have no unrecognized tax benefits. For 2004 (Erdman), 2005, 2006, and 2007, U.S. federal and state tax returns are open for examination.

Warranties

Erdman provides standard industry warranties, which generally are for one year after completion of a project. Buildings are guaranteed against defects in workmanship for one year after completion. The typical warranty requires that Erdman replace or repair the defective item. Erdman records an estimate for future warranty related costs based on actual historical warranty claims. This estimated liability is included in Other liabilities in the consolidated balance sheets. Based on analysis of warranty costs, the warranty provisions are adjusted as necessary. While warranty costs have historically been within its calculated expectations, it is possible that future warranty costs could exceed expectations.

The changes in the carrying amounts of the total warranty liabilities for the three and nine months ended September 30, 2008 and 2007 are as follows (in thousands):

Table of Contents

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Balance at the beginning of period	\$ 2,000	\$	\$	\$
Erdman acquisition			2,000	
Accruals	1,666		2,330	
Settlements	(1,666)		(2,330)	
Balance at the end of period	\$ 2,000	\$	\$ 2,000	\$

Deferred Financing Costs

Deferred financing costs include fees and costs incurred in conjunction with long-term financings and are amortized over the terms of the related debt using the straight-line method, which approximates the effective interest method. Upon repayment of or in conjunction with a material change in the terms of the underlying debt agreement, any unamortized costs are charged to earnings. Deferred financing costs were \$4.3 million, net of accumulated amortization of \$1.6 million as of September 30, 2008 and \$1.6 million, net of accumulated amortization of \$0.7 million, as of December 31, 2007.

Per Share Data

Basic and diluted earnings per share are computed based upon the weighted average number of shares outstanding during the respective period. There were 7,372 and 13,275 shares of unvested restricted stock outstanding at September 30, 2008 and 2007, respectively, that were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive.

Concentrations and Credit Risk

The Company maintains its cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specific limits. Balances on deposit in excess of FDIC limits are uninsured.

One customer accounted for over 10% of accounts receivable at September 30, 2008. No customers or tenants accounted for more than 10% of revenue for the three and nine months ended September 30, 2008 and 2007.

Reclassifications

As a result of the merger with Erdman, management has revised certain presentations in the condensed consolidated balance sheets and the condensed consolidated statements of operations to reflect the appropriate line items for the operations of the integrated business. These revisions include new line items for design-build operations, combining presentation of management fees and other reimbursements, and separately presenting income tax provision in the condensed consolidated statements of operations as well as separating out tenant and accounts receivable from other assets, accounts payable from accounts payable and other liabilities, and the combination of some immaterial line items into new lines for other assets and other liabilities in the condensed consolidated balance sheets. The reclassifications did not affect previously reported stockholders' equity or net loss.

Recent Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 is intended to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities by having the Company disclose: (1) how and why the Company uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after

Table of Contents

November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company has not adopted SFAS 161 and is in the process of evaluating the impact SFAS 161 may have on its consolidated financial statements.

In April 2008, the FASB issued Financial Statement Position (FSP) No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP No. EITF 03-6-1). FSP No. EITF 03-6-1 states that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and should be included in basic and diluted earnings per share calculations. FSP No. EITF 03-6-1 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company is evaluating the impact FSP No. EITF 03-6-1 may have on its consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP No. FAS 142-3). FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company is evaluating the impact FSP No. FAS 142-3 may have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 will be effective 60 days after the approval of the Securities and Exchange Commission (SEC) of the Public Company Accounting Oversight Board (PCAOB s) amendments to AU Section 411. The Company does not expect SFAS 162 to have an impact on its consolidated financial statements.

3. Business and Property Acquisitions***Merger with Erdman***

On March 10, 2008, the Company and the Operating Partnership completed a merger transaction through which they acquired MEA. The transaction was effected pursuant to an Agreement and Plan of Merger (the *Merger Agreement*), dated as of January 23, 2008, as amended, by and among the Company, the Operating Partnership, Goldenboy Acquisition Corp. (a wholly-owned subsidiary of the Operating Partnership), MEA, Erdman, Marshall Erdman Development, LLC, and David Pelisek, David J. Lubar and Scott A. Ransom, in their capacities as the Seller Representatives.

The consideration payable in the merger transaction and in the contribution transactions described below consists of cash and limited partnership interests issued by the Operating Partnership (the *OP Units*). The Operating Partnership entered into contribution agreements with 40 of MEA s stockholders (the *Contributors*) pursuant to which the Contributors agreed to roll over an aggregate of 1,265,392 shares of MEA (representing in the aggregate approximately 41% of MEA s outstanding shares on a fully diluted basis) by exchanging those shares for OP Units. The exchange of those shares for OP Units was completed immediately before the completion of the merger provided for in the Merger Agreement (the *Merger*). In the Merger, all the shares of MEA (other than the shares acquired by the Operating Partnership) were converted into the right to receive an amount of cash to be calculated in accordance with the provisions of the Merger Agreement.

The cash consideration per share of MEA common shares payable in the Merger (the *Cash Consideration*) was calculated pursuant to a formula based on an enterprise value for 100% of MEA of \$247.0 million, subject to certain adjustments. In connection with the Merger, in addition to the cash consideration of approximately \$159.6 million paid in the aggregate to the holders of MEA common shares, pursuant to certain contribution agreements entered into in connection with the Merger, the Operating Partnership issued OP Units to the Contributors. The number of OP Units per MEA common share was based on the same value per MEA common share payable in cash under the Merger Agreement, or \$17.01 per OP Unit. The OP Units issued in the transaction were of two types

Table of Contents

regular units and alternative units. A total of 4,331,336 OP Units were issued upon the closing of the transaction, of which 3,063,908 were regular units and 1,267,429 were alternative units. In June 2008, a total of 208,496 OP Units, of which all were alternative units, were issued as part of a post-closing claim release. Up to 595,705 additional OP Units, comprised of alternative units, may be issued based on the level of post-closing indemnity claims. The alternative units are substantially the same as the regular units, except that the regular units have an exchange feature whereby they are exchangeable, after a one-year lock-up period, on a one-for-one basis, for shares of the Company's common stock, while the alternative units were not exchangeable for shares of the Company's common stock until the exchange feature included as a feature of the alternative units was approved by the Company's stockholders. On May 29, 2008, the Company's stockholders approved the exchange feature whereby the alternative units will be exchangeable, after a one-year lock-up period, on a one-for-one basis, for shares of the Company's common stock.

The Merger Agreement provides that certain adjustments to the aggregate Cash Consideration paid will be made following the delivery of the final closing statement to the Seller Representative. A portion of the aggregate Cash Consideration has been deposited in an escrow account pending such adjustments. In the event that additional cash payments were owed to the former holders of MEA shares, the escrow agent shall pay to the former holders of MEA shares that were not exchanged for OP Units the pro rata cash amount owed to each such holder and the Operating Partnership will issue to the Contributors additional OP Units in the same amount per share, based on \$17.01 per OP Unit. The Merger Agreement also provides that a portion of the aggregate Cash Consideration to be paid to the former holders of shares of MEA will be held in escrow as security for certain indemnification obligations owed by such holders to the Operating Partnership and Goldenboy Acquisition Corp. under the Merger Agreement. Releases from this escrow will be treated in the same way.

In connection with the Merger, one of the former MEA shareholders, Lubar Capital LLC (Lubar), received the right to nominate one individual for election to the Company's Board of Directors. Accordingly, the Company's Board of Directors increased the size of the Board of Directors and elected David J. Lubar as a director on January 22, 2008. Lubar will continue to retain its right to nominate one individual for so long as Lubar and its affiliates continue to maintain at least 75% of their aggregate initial ownership measured in number of equity securities of the Company and its affiliates.

The aggregate consideration paid for the Merger was as follows (in thousands):

Fair value of OP Units issued and to be issued	\$ 81,347
Cash consideration, net of cash acquired	145,018
Total purchase price, net of cash acquired	\$ 226,365

Of the total purchase price, \$202.4 million has been paid and the remaining \$24.0 million is being held in escrow and is expected to be released to the sellers in November 2008 and June 2009. Of the \$24.0 million being held in escrow, \$9.4 million is expected to be paid in OP Units, which represents 595,705 OP Units. The Company has recorded a liability of \$9.4 million in Payable to MEA Shareholders related to the expected issuance of these OP Units and the company has recorded a liability of the \$14.6 million in Payable to MEA Shareholders related to the expected cash to be paid.

The Merger was accounted for under the purchase method in accordance with SFAS No. 141, Business Combinations (SFAS 141). The total purchase price will be allocated to assets acquired and liabilities assumed based upon their estimated fair values as determined by management. The estimated fair values are based on information currently available and on current assumptions as to future operations, and are subject to change upon the completion of acquisition accounting, including the finalization of asset valuations and working capital adjustment.

The following table is a summary preliminary allocation of the total purchase price for the assets acquired and liabilities assumed of Erdman as of March 10, 2008 (in thousands). The purchase price allocation for the goodwill and intangible assets and certain other assets and liabilities are subject to completion of valuations.

Table of Contents

Accounts receivable, including retainage receivables	\$ 52,637
Goodwill and intangible assets	287,592
Other assets	14,381
Accounts payable	(27,449)
Billings in excess of costs and estimated earnings on uncompleted contracts	(37,134)
Deferred income taxes	(39,989)
Other liabilities	(23,673)
 Total purchase price, net of cash acquired	 \$ 226,365

Erdman's service offerings and customer lists are complementary to the Company's pre-Merger service offerings. As a result of the Merger, the Company became a fully integrated healthcare facilities real estate company. The accompanying statement of operations for the nine months ended September 30, 2008, includes seven months of Erdman's operations.

Property Acquisitions

Property acquisitions are accounted for in accordance with SFAS 141. The purchase price is allocated between net tangible and intangible assets based on their estimated fair values as determined by management using methods similar to those used by independent appraisers of income-producing property.

In February 2008, the Company acquired a leasehold interest in floors six and seven of St. Mary's North Medical Office Building, a seven-story multi-tenant medical office building located on the campus of St. Mary's Hospital in Richmond, Virginia. The purchase price was \$4.6 million less a \$0.2 million credit from the seller for unpaid tenant improvement allowances.

In February 2008, the Company acquired East Jefferson Medical Plaza located in Metairie, Louisiana for \$19.8 million less a \$0.7 million credit from the seller for unpaid tenant improvement allowances. The facility is 123,184 square feet and is located on the campus of East Jefferson General Hospital. With this acquisition, the Company now owns and manages 253,914 square feet of medical office and clinical space on or adjacent to the East Jefferson campus.

In September 2008, the Company acquired a controlling interest in Genesis Property Holding, LLC (Genesis), located in Pensacola, Florida for \$2.2 million. Genesis is in the early stages of constructing an approximately \$22.4 million, 75,985 square foot medical office building and outpatient treatment center. The project is 100% pre-leased and scheduled for construction completion in December 2009. The Company expects to own 40% of the entity and the remaining 60% will be owned by physician-tenants of the building.

The following table is an allocation of the purchase price of the property acquisitions during the nine months ended September 30, 2008 (in thousands):

Construction in progress	\$ 4,031
Building and improvements	20,259
Acquired ground or air rights leases	325
Acquired in place lease value and deferred leasing costs	2,948
Acquired above market leases	10
Mortgage notes payable	(2,722)
Minority interest in real estate partnerships	(3,359)
 Total purchase price allocated, net of cash acquired	 \$ 21,492

The following summary of selected unaudited pro forma results of operations presents information as if the business and property acquisitions had occurred at the beginning of each period presented. The unaudited pro forma information is provided for informational purposes only and is not indicative of results that would have occurred or

which may occur in the future (in thousands, except per share amounts):

12

Table of Contents

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Revenue	\$94,019	\$96,208	\$286,581	\$284,995
Net income (loss)	856	(107)	(1,942)	(1,472)
Net income (loss) per share basic and diluted	\$ 0.05	\$ (0.01)	\$ (0.13)	\$ (0.14)

The Company expects to recognize amortization expense from the acquired intangible assets of \$13.2 million, \$10.3 million, \$4.9 million, \$3.9 million, \$3.0 million for the years ended December 31, 2008, 2009, 2010, 2011, and 2012, respectively, and \$2.8 million thereafter. Goodwill is not amortized and is associated with the Design-Build and Development segment.

4. Investments in Real Estate Partnerships

As of September 30, 2008, the Company had an ownership interest in eight limited liability companies or limited partnerships.

The following is a description of the unconsolidated entities:

Cogdell Spencer Medical Partners LLC, a Delaware limited liability company, founded in 2008, has no assets as of September 30, 2008, and 20.0% owned by the Company;

BSB Health/MOB Limited Partnership No. 2, a Delaware limited partnership, founded in 2002, owns nine medical office buildings, and 2.0% owned by the Company;

Shannon Health/MOB Limited Partnership No. 1, a Delaware limited partnership, founded in 2001, owns ten medical office buildings, and 2.0% owned by the Company; and

McLeod Medical Partners, LLC, a South Carolina limited liability company, founded in 1982, owns three medical office buildings, and 1.1% owned by the Company.

The following is a description of the consolidated entities:

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

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

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

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

The Company is the general partner or managing member of these real estate partnerships and manages the properties owned by these entities. The Company may receive development fees, property management fees, leasing fees, and expense reimbursements from these real estate partnerships.

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

Table of Contents

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

	As of		As of	
	September		December	
	30,		31,	
	2008		2007	
Financial position:				
Total assets			\$ 56,510	\$ 57,406
Total liabilities			50,379	50,725
Members' equity			6,131	6,681
	For the Three Months		For the Nine Months Ended	
	Ended		September	
	September	September	September	September
	30,	30,	30,	30,
	2008	2007	2008	2007
Results of operations:				
Total revenues	\$ 3,025	\$ 3,052	\$ 9,107	\$ 9,119
Operating and general and administrative expenses	1,555	1,320	4,263	3,853
Net income	(28)	285	446	914

5. Business Segments

The Company has two identified reportable segments: (1) property operations and (2) design-build and development. The Company defines business segments by their distinct customer base and service provided. Each segment operates under a separate management group and produces discrete financial information, which is reviewed by the chief operating decision maker to make resource allocation decisions and assess performance.

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

commitments and uncertainties. FFO or FFOM should not be considered as alternatives to net income (loss) (computed in accordance with GAAP) as an indicator of the Company's performance, nor are they indicative of funds available to fund the Company's cash needs, including the Company's ability to pay dividends or make distributions.

In periods prior to 2008, the Company presented segment net operating income for property operations and real estate services, where the real estate services segment included property management services. Due to the Merger with Erdman, the presentation of discrete financial information was modified and Company management no longer uses those segment measures when making resource allocation decisions.

Table of Contents

The following tables represent the segment information for the three months ended September 30, 2008 and 2007 (in thousands):

	Property Operations	Design-Build and Development	Unallocated and Other	Total
Three months ended September 30, 2008:				
Revenues:				
Rental revenue	\$ 19,631	\$	\$	\$ 19,631
Design-Build contract revenue and other sales		72,914		72,914
Property management and other fees	852			852
Development management and other income		622		622
Total revenues	20,483	73,536		94,019
Certain operating expenses:				
Property operating and management	8,370			8,370
Costs related to design-build contract revenue and other sales		59,578		59,578
Selling, general, and administrative		4,865		4,865
Total certain operating expenses	8,370	64,443		72,813
	12,113	9,093		21,206
Other income (expense)	143	52	15	210
Corporate general and administrative expenses			(2,734)	(2,734)
Interest expense			(6,743)	(6,743)
Provision for income taxes applicable to funds from operations modified			(2,411)	(2,411)
Depreciation and amortization		(348)	(57)	(405)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	13			13
Minority interests in real estate partnerships, before real estate related depreciation and amortization	(977)			(977)
Funds from operations modified (FFOM)	11,292	8,797	(11,930)	8,159
Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)	(3,876)	1,528	(2,390)
Funds from operations (FFO)	11,250	4,921	(10,402)	5,769
Real estate related depreciation and amortization	(7,494)			(7,494)
Minority interests in operating partnership			639	639

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Net income (loss)	\$ 3,756	\$ 4,921	\$ (9,763)	\$ (1,086)
Total assets	\$ 575,244	\$ 308,878	\$ 952	\$ 885,074

Table of Contents

	Property Operations	Design-Build and Development	Unallocated and Other	Total
Three months ended September 30, 2007:				
Revenues:				
Rental revenue	\$ 16,399	\$	\$	\$ 16,399
Design-Build contract revenue and other sales				
Property management and other fees	874			874
Development management and other income		25		25
Total revenues	17,273	25		17,298
Certain operating expenses:				
Property operating and management	6,797			6,797
Costs related to design-build contract revenue and other sales				
Selling, general, and administrative		111		111
Total certain operating expenses	6,797	111		6,908
	10,476	(86)		10,390
Other income (expense)	148		35	183
Corporate general and administrative expenses			(1,421)	(1,421)
Interest expense			(4,101)	(4,101)
Provision for income taxes applicable to funds from operations modified			2	2
Depreciation and amortization			(39)	(39)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	16			16
Minority interests in real estate partnerships, before real estate related depreciation and amortization	(41)			(41)
Funds from operations modified (FFOM)	10,599	(86)	(5,524)	4,989
Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)		16	(26)
Funds from operations (FFO)	10,557	(86)	(5,508)	4,963
Real estate related depreciation and amortization	(7,180)			(7,180)
Minority interests in operating partnership			615	615
Net income (loss)	\$ 3,377	\$ (86)	\$ (4,893)	\$ (1,602)

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Total assets	\$ 474,856	\$	\$ 796	\$ 475,652
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16

Table of Contents

The following tables represent the segment information for the nine months ended September 30, 2008 and 2007 (in thousands):

	Property Operations	Design-Build and Development	Unallocated and Other	Total
Nine months ended September 30, 2008:				
Revenues:				
Rental revenue	\$ 57,622	\$	\$	\$ 57,622
Design-Build contract revenue and other sales		174,870		174,870
Property management and other fees	2,524			2,524
Development management and other income		751		751
Total revenues	60,146	175,621		235,767
Certain operating expenses:				
Property operating and management	23,403			23,403
Costs related to design-build contract revenue and other sales		146,907		146,907
Selling, general, and administrative		12,548		12,548
Total certain operating expenses	23,403	159,455		182,858
	36,743	16,166		52,909
Other income (expense)	456	137	89	682
Corporate general and administrative expenses			(7,848)	(7,848)
Interest expense			(18,695)	(18,695)
Provision for income taxes applicable to funds from operations modified			(3,719)	(3,719)
Depreciation and amortization		(772)	(176)	(948)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	26			26
Minority interests in real estate partnerships, before real estate related depreciation and amortization	(1,128)			(1,128)
Funds from operations modified (FFOM)	36,097	15,531	(30,349)	21,279
Amortization of intangibles related to purchase accounting, net of income tax benefit	(127)	(9,043)	3,576	(5,594)
Funds from operations (FFO)	35,970	6,488	(26,773)	15,685
Real estate related depreciation and amortization	(22,896)			(22,896)
Minority interests in operating partnership			2,480	2,480

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Net income (loss)	\$ 13,074	\$ 6,488	\$ (24,293)	\$ (4,731)
Total assets	\$ 575,244	\$ 308,878	\$ 952	\$ 885,074

Table of Contents

	Property Operations	Design-Build and Development	Unallocated and Other	Total
Nine months ended September 30, 2007:				
Revenues:				
Rental revenue	\$ 45,344	\$	\$	\$ 45,344
Design-Build contract revenue and other sales				
Property management and other fees	2,644			2,644
Development management and other income		276		276
Total revenues	47,988	276		48,264
Certain operating expenses:				
Property operating and management	18,766			18,766
Costs related to design-build contract revenue and other sales				
Selling, general, and administrative		377		377
Total certain operating expenses	18,766	377		19,143
	29,222	(101)		29,121
Other income (expense)	428	237	98	763
Corporate general and administrative expenses			(4,919)	(4,919)
Interest expense			(11,324)	(11,324)
Provision for income taxes applicable to funds from operations modified			(200)	(200)
Depreciation and amortization			(100)	(100)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	28			28
Minority interests in real estate partnerships, before real estate related depreciation and amortization	(128)			(128)
Funds from operations modified (FFOM)	29,550	136	(16,445)	13,241
Amortization of intangibles related to purchase accounting, net of income tax benefit	(127)		50	(77)
Funds from operations (FFO)	29,423	136	(16,395)	13,164
Real estate related depreciation and amortization	(20,395)			(20,395)
Minority interests in operating partnership			2,226	2,226
Net income (loss)	\$ 9,028	\$ 136	\$ (14,169)	\$ (5,005)

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Total assets	\$ 474,856	\$	\$ 796	\$ 475,652
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18

Table of Contents**6. Contracts**

Revenue and billings to date on uncompleted contracts, from their inception, as of September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008	December 31, 2007
Costs and estimated earnings on uncompleted contracts	\$ 257,402	\$
Billings to date	(280,473)	
Net billings in excess of costs and estimated earnings	\$ (23,071)	\$

These amounts are included in the consolidated balance sheet at September 30, 2008 and December 31, 2007 as shown below (in thousands). At September 30, 2008, the Company had retainage receivables of \$10.2 million, which are included in Tenant and accounts receivable in the consolidated balance sheets. Amounts for billed retainages and receivables to be collected in excess of one year are not significant for the periods presented.

	September 30, 2008	December 31, 2007
Costs and estimated earnings in excess of billings ⁽¹⁾	\$ 4,545	\$
Billings in excess of costs and estimated earnings	(27,616)	
Net billings in excess of costs and estimated earnings	\$ (23,071)	\$

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

7. Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following at September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008	December 31, 2007
Goodwill	\$ 5,335	\$ 5,335
Intangible assets related to the Erdman acquisition, net of accumulated amortization of \$9,043 in 2008	278,556	
Acquired above market leases, net of accumulated amortization of \$693 in 2008 and \$516 in 2007	866	1,033
Acquired in place lease value and deferred leasing costs, net of accumulated amortization of \$22,300 in 2008 and \$17,739 in 2007	18,745	20,359
Acquired ground leases, net of accumulated amortization of \$357 in 2008 and \$217 in 2007	3,206	3,021
Acquired property management contracts, net of accumulated amortization of \$383 in 2008 and \$256 in 2007	1,715	1,841

Total goodwill and intangible assets, net	\$	308,423	\$	31,589
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Table of Contents**8. Mortgage Notes Payable and Borrowing Agreements*****Revolving Credit Facility***

On March 10, 2008, the Company amended and restated its existing revolving credit facility, dated November 1, 2005, among the Company, the Operating Partnership, Bank of America, N.A., Citicorp North America, Inc., Branch Banking and Trust Company, Banc of America Securities LLC, Citigroup Global Markets Inc. and other lenders (the Credit Facility). Banc of America Securities LLC is acting as sole lead arranger and sole book manager of the Credit Facility. KeyBank National Association is acting as syndication agent. Branch Banking and Trust Company and Wachovia Bank, N.A. are acting as co-documentation agents. Bank of America, N.A., KeyBank National Association, Branch Banking and Trust Company, Wachovia Bank, National Association, M&I Marshall and Ilsley Bank, and Citicorp North America, Inc. are lenders (the Lenders) thereunder. The Credit Facility is secured by certain of the Company's properties and is guaranteed by the Company and certain of its subsidiaries. The Credit Facility matures on March 10, 2011, subject to a one-year extension at the Company's option conditioned upon the Lenders being satisfied with the Company and its subsidiaries' financial condition and liquidity, and taking into consideration any payment, extension or refinancing of the Term Loan (as described below). The Credit Facility is cross defaulted against the Term Loan. The Company is subject to customary covenants including, but not limited to, (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the Company's REIT qualification and listing on the NYSE, (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, and (3) financial covenants to be met by the Company at all times including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances issued after the closing date). The interest rate on loans under the Credit Facility equals, at the Company's election, either (1) LIBOR (3.93% as of September 30, 2008) plus a margin of between 95 to 140 basis points based on the Company's leverage ratio or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (5.00% as of September 30, 2008).

As of September 30, 2008, there was \$51.9 million available under the Credit Facility. There was \$90.0 million outstanding at September 30, 2008 and \$8.1 million of availability was restricted related to outstanding letters of credit.

Term Loan

The Company, through its Erdman TRS, has \$100.0 million outstanding under a \$100.0 million senior secured term facility (the Term Loan) to finance the cash portion of the Merger. Keybank Capital Markets is acting as sole lead arranger and sole book manager of the Term Loan. Bank of America, N.A. is acting as syndication agent. Branch Banking and Trust Company and Wachovia Bank, N.A. are acting as co-documentation agents. KeyBank National Association, Bank of America, N.A., Branch Banking and Trust Company, Wachovia Bank, National Association, M&I Marshall and Ilsley Bank, and Citicorp North America, Inc. are lenders thereunder. The Term Loan is secured by the stock and certain accounts receivables of Erdman and is guaranteed by the Company. The Term Loan matures on March 10, 2011, and is subject to a one-time right to a one-year extension at the Company's option (and the payment of an extension fee). The Term Loan contains customary covenants including, but not limited to, (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the Company's REIT qualification and listing on the New York Stock Exchange, (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, and (3) financial covenants to be met by the Company at all times under the guaranty including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances), as well as being cross defaulted to the Company's Credit Facility. In addition, there are financial covenants relating only to Erdman. The interest rate on loans under the Term Loan equals, at the

Table of Contents

Company's election, either (1) LIBOR (3.93% as of September 30, 2008) plus a margin of between 300 to 350 basis points based on certain Erdman performance ratios or (2) (i) the higher of the federal funds rate plus 50 basis points or KeyBank National Association's prime rate (ii) plus a margin of between 300 to 350 basis points based on certain Erdman performance ratios (5.00% as of September 30, 2008).

Mortgage Notes Payable

Mebane Medical Investors, LLC, a consolidated real estate partnership, has construction financing related to the Mebane Medical Office Building project. The credit facility provides financing of up to \$13.0 million with an interest rate equal to LIBOR plus 1.3% (5.23% as of September 30, 2008). The mortgage note payable will mature in May 2010 and provides for interest-only payments through May 2009 and principal payments based on a 30-year amortization from June 2009 through the maturity date in May 2010. This facility has two one-year extension options. As of September 30, 2008, there was a total of \$12.1 million drawn on the facility.

In July 2008, the Company refinanced the mortgage note payable for Rocky Mount MOB, LLC, a consolidated real estate partnership. Terms of the note payable require monthly payments of approximately \$35,000 through March 2012, at which time the remaining principal is due. The note payable has a fixed interest rate of 6.03%. The principal balance was increased by \$1.3 million to \$5.4 million.

Genesis Property Holding, LLC, a consolidated real estate partnership, has construction financing related to the Pensacola, Florida, medical office building and cancer center project. The financing provides for an amount up to \$16.8 million and for a total term of ten years, inclusive of an 18-month construction period. The loan calls for payments of interest-only during the construction period at a rate of one-month LIBOR plus 1.50%. After the construction period, the loan converts to an amortizing loan with monthly payments based on a 25-year amortization schedule. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 6.21% after the construction period through maturity. The loan matures September 2018.

In September 2008, the Company paid off the remaining principal balance of \$8.6 million on the mortgage note payable for Medical Investors I, LLC.

Scheduled Maturities

Scheduled maturities of the mortgage notes payable and borrowing agreements as of September 30, 2008, are as follows (in thousands):

For the period ending:

2008	\$ 13,466
2009	47,560
2010	31,109
2011	212,386
2012	11,145
Thereafter	108,596
	424,262
Unamortized premium	235
	\$ 424,497

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

Interest rate swap agreements are utilized to reduce exposure to variable interest rates associated with certain mortgage notes payable and credit facilities. These agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal amount (the notional amount). The interest rate swap 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, are reported in accumulated other comprehensive income (loss) exclusive of ineffectiveness amounts.

The following table summarizes the terms of the agreements and their fair values at September 30, 2008 and December 31, 2007 (dollars in thousands):

Entity	Notional Amount as of September 30, 2008	Receive Rate	Pay Rate	Effective Date	Expiration Date	September 30, 2008		December 31, 2007	
						Asset	Liability	Asset	Liability
Beaufort Medical Plaza, LLC ⁽¹⁾	\$ 4,931	LIBOR	5.65%	8/18/2008	8/18/2011	\$	\$ 34	\$	\$
Beaufort Medical Plaza, LLC	4,851	LIBOR	5.01%	10/25/2006	7/25/2008				23
Cogdell Health Campus MOB, LP	11,021	LIBOR	4.03%	3/14/2008	3/2/2015	61			
Indianapolis MOB LLC	30,001	LIBOR	4.95%	11/6/2006	10/31/2009		622		689
River Hills Medical Associates, LLC	2,891	LIBOR	4.97%	10/16/2006	12/15/2008		13		29
Roper MOB, LLC	9,271	LIBOR	4.95%	10/10/2006	7/10/2009		135		173
St. Francis Community MOB, LLC ⁽²⁾		N/A	N/A	N/A	N/A				25
St. Francis Medical Plaza, LLC ⁽²⁾		N/A	N/A	N/A	N/A				27
Genesis Property Holdings, LLC	16,791	LIBOR	4.71%	4/1/2010	10/1/2018		68		
MEA Holdings, Inc.	100,001	LIBOR	2.82%	4/1/2008	3/1/2011	1,446			
Cogdell Spencer LP ⁽³⁾	30,001	LIBOR	3.11%	10/15/2008	3/10/2011	230			

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	1					
	Month					
Cogdell Spencer LP	3,000	LIBOR5.06%	8/14/2007	10/31/2008	8	27
	1					
	Month					
Cogdell Spencer LP	27,000	LIBOR5.06%	8/20/2007	10/31/2008	50	242
					\$ 1,737	\$ 930
					\$	\$ 1,235

(1) Swap agreement represents the renewal of the agreement ended 7/25/2008.

(2) Swap agreements expired on June 15, 2008 and were not renewed.

(3) Swap agreement intended to replace the prior two agreements that expired on 10/31/2008.

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157) for financial assets and liabilities. The FASB issued Staff Position No. SFAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* (FSP 157-1). FSP 157-1 excludes SFAS No. 13, *Accounting for Leases*, as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under SFAS No. 13, from the scope of SFAS No. 157. As permitted by FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No 157*, the Company elected to defer the adoption of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value and also expands disclosures about fair value measurements. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 utilizes a fair value hierarchy that 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. The Company's assessment of the

Table of Contents

significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Fair Value Measurements as of September 30, 2008			
	Total	Level 1	Level 2	Level 3
Assets:				
Derivative financial instruments	\$1,737	\$	\$1,737	\$
Liabilities:				
Derivative financial instruments	\$ (930)	\$	\$ (930)	\$

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 rates forward curves derived from observable market interest rate curves. The fair values of interest rate caps are determined using the market standard methodology of discounting the future expected cash receipts that would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of SFAS 157, the Company incorporates credit valuation adjustments to appropriately reflect both its nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

10. Minority Interests in Operating Partnership

As of September 30, 2008, there were 26.8 million OP Units outstanding, of which 17.6 million, or 65.5%, were owned by the Company and 9.2 million, or 34.5%, were owned by other partners, including certain directors, officers and other members of senior management. As of September 30, 2008, the fair market value of the OP Units not owned by the Company was \$152.8 million, based on a market value of \$16.54 per unit, which was closing stock price of the Company's shares on September 30, 2008.

11. Dividends and Distributions

On September 11, 2008, the Company announced that the Board of Directors had declared a quarterly distribution of \$0.35 per share or OP Unit that was paid on October 20, 2008 to stockholders and holders of OP Units of record on September 26, 2008. The distribution covered the third quarter of 2008 and \$9.4 million is included in Other liabilities in the September 30, 2008 condensed consolidated balance sheet.

Table of Contents**12. Incentive Plan**

Effective February 27, 2008, each non-employee member of the Company's Board of Directors was granted shares of restricted stock or long-term incentive plan units (LTIP units) in the Operating Partnership that all vested upon issuance. Messrs Georgius and Lee and Dr. Smoak were each granted 3,135 LTIP units and Messrs Jennings and Neugent were each granted 3,135 shares of restricted stock. The restricted stock and LTIP units were valued at \$15.00 per share, which was the Company's closing stock price on the grant date.

In March 2008, the Company issued an aggregate 156,740 LTIP units, of which 20%, or 31,347, vested upon issuance. The remaining 80% will vest if, and when, the Company achieves certain performance standards as provided in the awards. The one time award was granted in recognition of the role played by certain employees in guiding the Company through the Merger. The LTIP units were valued at \$15.72 per unit, which was the Company's closing stock price on the grant date. The Company recorded compensation expense of \$0.5 million in March 2008 related to the 20% of the grant that vested.

In May 2008, Mr. Cogdell, the Chairman of the Board of Directors of the Company elected to forego his Annual Salary (as defined in Mr. Cogdell's employment agreement) (the Foregone Salary) as of the partial fiscal year beginning April 1, 2008 through December 31, 2008, and continuing for each of the Company's fiscal years during which Mr. Cogdell is employed by the Company. In lieu of receiving his Annual Salary, Mr. Cogdell shall be awarded LTIP units in the Operating Partnership, under the Company's 2005 equity incentive plan, as follows: (1) for the period from April 1, 2008 through December 31, 2008 (the 2008 Period), Mr. Cogdell shall be awarded a number of LTIP units equal to (A) the Foregone Salary for the 2008 Period divided by (B) \$17.62, being the closing price of the Company's common stock on the New York Stock Exchange on May 28, 2008, and (2) for each of the Company's fiscal years beginning on January 1, 2009 during which Mr. Cogdell is employed by the Company on a full time basis, Mr. Cogdell shall be awarded a number of LTIP units equal to (A) the Foregone Salary for such fiscal year divided by (B) the closing price of the Company's common stock on the New York Stock Exchange on December 31 of such fiscal year (or, to the extent that December 31 is not a trading day, the immediately preceding trading day). One-third of the LTIP units awarded to Mr. Cogdell in respect of the 2008 Period vested immediately, one-third vested on July 1, 2008, and one-third shall vest on October 1, 2008. The LTIP units awarded to Mr. Cogdell in respect of each of the Company's fiscal years beginning on January 1, 2009 shall vest ratably on the first day of each fiscal quarter. Any LTIP units that remain unvested upon the termination of Mr. Cogdell's employment with the Company shall be forfeited.

In September 2008, the Company issued an aggregate of 5,153 LTIP units, all of which vested upon issuance, to certain employees based on specific performance goals. The LTIP units were valued at \$15.72 per unit, which was the Company's closing stock price on the grant date. The Company recorded compensation expense of less than \$0.1 million in September 2008 related to the grant.

13. Related Party Transactions

The Fork Farm, a working farm owned by the Company's Chairman, periodically hosts events on behalf of the Company. Charges of approximately \$6,000 and \$14,600, for the nine months ended September 30, 2008 and 2007, respectively, are reflected in Selling, general, and administrative expenses in the consolidated statements of operations.

The Company has certain design-build contracts for the construction of medical facilities with certain entities in which Mr. Lubar has an indirect ownership interest and serves as an officer. The total contract amount is \$30.7 million and construction was in process at the time of the Erdman transaction. For the three and nine months ended September 30, 2008, the Company recognized \$5.4 and \$11.6 million, respectively, of contract revenue and as of September 30, 2008, had accounts receivable of \$1.5 million and billings in excess of costs and estimated earnings on uncompleted contracts of \$2.1 million.

Table of Contents

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

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 and Exchange Act of 1934, as amended. Actual results may differ materially due to uncertainties including:

the Company's business strategy;

the Company's ability to integrate Erdman;

the Company's ability to obtain future financing arrangements;

estimates relating to the Company's future distributions;

the Company's understanding of the Company's competition;

the Company's ability to renew the Company's ground leases;

changes in the reimbursement available to the Company's tenants by government or private payors;

the Company's tenants' ability to make rent payments;

defaults by tenants;

market trends; and

projected capital expenditures.

Forward-looking statements are based on estimates as of the date of this report. The Company disclaims any obligation to publicly release the results of any revisions to these forward-looking statements reflecting new estimates, events or circumstances after the date of this report.

Overview

The Company is a fully-integrated, self-administered, and self-managed REIT that invests in specialty office buildings for the medical profession, including medical offices and ambulatory surgery and diagnostic centers. The Company focuses on the ownership, development, redevelopment, acquisition, and management of strategically located medical office buildings and other healthcare related facilities in the United States of America. The Company has been built around understanding and addressing the specialized real estate needs of the healthcare industry.

On March 10, 2008, the Company merged with MEA, which wholly owns Erdman. Erdman is a market-leading provider of design-build healthcare facilities throughout the United States of America. Erdman's service offerings include advance planning, architecture, engineering, and construction. Combined, the Company is a fully integrated healthcare facilities solutions company providing services from conceptual planning to long-term property management.

Table of Contents

**Core Capabilities
Erdman**

Advance Planning

Design

Construction

**Core Capabilities
Cogdell Spencer**

Ownership

Development

Acquisitions

Property Management

The Company is building a national portfolio of healthcare properties located on hospital campuses. Since the Company's initial public offering in 2005, the Company has acquired properties in five new states and multiple new markets. During the nine months ended September 30, 2008, the Company acquired two off-market acquisitions that were a result of strong relationships with existing clients. Client relationships and advance planning services provided by Erdman also give the Company the ability to be included in the initial project discussions that can lead to ownership and investment in healthcare properties.

The Company's development team has completed four projects since the Company's initial public offering in 2005. In the fourth quarter of 2007, the Company broke ground on the St. Luke's Riverside Outpatient Campus project, which is a \$100 million, 400,000 square foot, four building project including two medical office buildings. The Company will retain ownership in the two medical office buildings, which are valued between \$35 and \$40 million.

During the third quarter of 2008, the Company formed a joint venture with Northwestern Mutual. The joint venture, named Cogdell Spencer Medical Partners LLC, expects to acquire up to approximately \$350.0 million of medical office buildings and other healthcare facilities nationwide, predominantly associated with not-for-profit healthcare systems and large physician-owned clinics. The Company will contribute 20% of the equity capital to fund future acquisitions in this joint venture. The joint venture will be the Company's exclusive vehicle for cash acquisitions.

On September 2, 2008, the Company announced the first synergy project since the closing of the Merger with Erdman. The project will include design/build (architectural, engineering, and construction), development, and property management services. The \$22.4 million project is a 75,985 square foot medical office building and outpatient treatment center located in Pensacola, Florida. The project is 100% pre-leased and scheduled for completion in December 2009. The Company expects to own approximately 40% of the building through a joint venture with the physician tenants of the building. In connection with this project, the Company obtained financing in an amount up to \$16.8 million and for a total term of ten years, inclusive of an 18-month construction period. The loan provides for payments of interest-only during the construction period at a rate of one-month LIBOR plus 1.50%. After the construction period, the loan converts to an amortizing loan with monthly payments based on a 25-year amortization schedule. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 6.21% after the construction period through maturity. The loan matures September 2018.

Since its founding in 1951, Erdman has designed, engineered, or built over 5,000 healthcare facilities, which support more than 50,000 physicians. In 2007, Erdman achieved \$324 million in revenue and increased its backlog. Erdman was ranked as the number one healthcare design-build firm for 2007 by *Modern Healthcare's* 2008 Construction and Design Survey.

Table of Contents

The Company's property management team has a proactive, customer-focused service approach that leads to faster response times and greater resources to serve tenants. The Company's management believes that a strong internal property management capability is a vital component of the Company's business, both for the properties that the Company owns and for those that the Company manages. In 2008, the Company will continue the Celebrating 25 Years Campaign, which recognizes the long-term relationships between the Company and its healthcare system clients and partners.

As of September 30, 2008, the Company owned and/or managed 116 medical office buildings (MOBs) and healthcare related facilities, serving 27 hospital systems in 13 states. The Company's portfolio consists of:

62 properties, comprised of 3.3 million net rentable square feet, each of which the Company wholly-owns or is a consolidated real estate partnership;

Three properties, comprised of 0.2 million net rentable square feet, in which the Company owns a minority interest; and

51 properties, comprised of 2.2 million net rentable square feet, that the Company manages for third parties.

As of September 30, 2008, of the Company's wholly-owned properties, 81% were located on hospital campuses and an additional 7% were located off-campus, but were hospital anchored. The Company believes that its on-campus and hospital anchored assets occupy a premier franchise location in relation to local hospitals, providing the Company's properties with a distinct competitive advantage over alternative medical office space in an area. As of September 30, 2008, the Company's in-service, consolidated wholly-owned and joint venture properties were approximately 91.9% occupied, with a weighted average remaining lease term of approximately 4.8 years.

Factors Which May Influence Future Results of Operations

The Company derives a significant portion of its revenues from two sources: 1) rents received from tenants under existing leases in medical office buildings and other healthcare related facilities, and 2) design-build services for healthcare customers. The Company derives a lesser portion of its revenues from fees that are paid for managing and developing medical office buildings and other healthcare related facilities for third parties.

Generally, the Company's revenues and expenses have remained consistent except for growth due to property and business acquisitions and timing of development fee earnings. Erdman's financial results can be affected by weather at the construction sites, amount and timing of capital spending by healthcare systems and providers, and the demand for Erdman's services in the healthcare facilities market. Fluctuations in the commercial property credit markets and changes in variable interest rates could influence the Company's borrowing costs.

Critical Accounting Policies

The Company's discussion and analysis of financial condition and results of operations are based upon the Company's 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 and combination.

The preparation of financial statements in conformity with GAAP requires 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. The Company's actual results may differ from these estimates. Management has provided a summary of the Company's significant accounting policies in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2007. 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 the Company's results of operations and financial condition to those companies.

Table of Contents***Acquisition of Real Estate***

The price that the Company pays 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, the Company is 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 the Company's 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 the Company. Each of these estimates requires significant judgment and some of the estimates involve complex calculations. The Company's calculation methodology is summarized in Note 2 to the Company's audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2007. These allocation assessments have a direct impact on the Company's results of operations because if the Company were to allocate more value to land there would be no depreciation with respect to such amount or if the Company 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 the Company's consolidated and combined statements of operations.

Useful Lives of Assets

The Company is required to make subjective assessments as to the useful lives of the Company's properties and intangible assets for purposes of determining the amount of depreciation and amortization to record on an annual basis with respect to the Company's assets. These assessments have a direct impact on the Company's net income (loss) because if the Company were to shorten the expected useful lives, then the Company would depreciate or amortize such assets over fewer years, resulting in more depreciation or amortization expense on an annual basis.

Asset Impairment Valuation

The Company reviews the carrying value of its properties, goodwill, and intangible assets when circumstances, such as adverse market conditions, indicate a potential impairment may exist. The Company bases its review on an estimate of the future cash flows (excluding interest charges) expected to result from the real estate or business investment's use and eventual disposition. The Company considers factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If the Company's evaluation indicates that it 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 the Company's net income 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. Since 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, the Company's strategy of holding properties over the long-term directly decreases the likelihood of recording an impairment loss for properties. If the Company's strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If the Company determines that impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date. The Company estimates 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. The Company reviews the value of Goodwill using an income approach on an annual basis and when circumstances indicate a potential impairment may exist.

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 the Company's 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. The Company's leases generally contain provisions under which the tenants reimburse the Company for all property operating expenses and real estate taxes incurred by the Company. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized when the related leases are canceled and the Company has no continuing obligation to provide services to such former tenants. As discussed above, the Company recognizes 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, the Company recognizes revenue under the percentage of completion method. Due to the volume, varying complexity, and other factors related to the Company's 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. The Company and Erdman 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 estimate 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 the consolidated financial statements.

The Company receives 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 retained by the Company, most joint venture developments will be consolidated; therefore, those development fees will be eliminated in consolidation. However, the Cogdell Spencer Medical Partners, LLC partnership is an unconsolidated entity.

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 Statement of Financial Accounting Standards No. 13 (SFAS 13), and other income incidental to the Company's operations and is recognized when earned.

The Company must make subjective estimates as to when the Company's revenue is earned and the collectibility of the Company's accounts receivable related to design-build contracts and other sales, minimum rent, deferred rent, expense reimbursements, lease termination fees and other income. The Company specifically analyzes 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 the Company's 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.

REIT Qualification Requirements

The Company is subject to a number of operational and organizational requirements to qualify and then maintain qualification as a REIT. If the Company does not qualify as a REIT, its income would become subject to U.S. federal, state and local income taxes at regular corporate rates that would be substantial and the Company cannot re-elect to qualify as a REIT for five years. The resulting adverse effects on the Company's results of operations, liquidity and amounts distributable to stockholders would be material.

Table of Contents**Changes in Financial Condition**

On January 23, 2008, the Company issued 3,448,278 shares of common stock to certain institutional investors at a price of \$15.95 per share resulting in net proceeds to the Company of approximately \$53.8 million. On September 10, 2008, the Company issued 2,160,000 shares of common stock in a public offering at a price of \$18.50 per share resulting in net proceeds to the Company of approximately \$37.6 million. The net proceeds of both offerings were used to reduce outstanding principal on the Company's Credit Facility and for working capital purposes. For more information on the Credit Facility, see Liquidity and Capital Resources.

As discussed in Note 3 and Note 8 in the accompanying consolidated financial statements, the Company completed the Merger with Erdman, amended the Credit Facility, and obtained \$100.0 million in term debt.

Results of Operations

The Company's loss from operations is generated primarily from operations of its properties and design-build services. 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 segment.

For the three and nine months ended September 30, 2008, there are three months and seven months, respectively, of operating activity related to the Erdman subsidiary.

Business Segments

The Company has two identified reportable segments: (1) property operations and (2) design-build and development. The Company defines business segments by their distinct customer base and service provided. Each segment operates under a separate management group and produces discrete financial information, which is reviewed by the chief operating decision maker to make resource allocation decisions and assess performance. See Note 5 of the accompanying consolidated financial statements.

Property Summary

The following is an activity summary of the Company's portfolio of wholly-owned and consolidated partnership properties for the three and nine months ended September 30, 2008 and 2007 and the year ended December 31, 2007:

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Properties at beginning of the period	62	53	59	50
Acquisitions		2	2	3
In-service completed developments			1	1
Lease-up completed development		1		2
Properties at end of the period	62	56	62	56
				Year Ended December 31, 2007
Properties at January 1				51
Acquisitions				5
In-service completed developments				2
Lease-up completed development				1
Properties at December 31				59

The above tables include East Jefferson Medical Specialty Building, which is accounted for as a sales-type capital lease. A property is considered in-service upon the earlier of (1) lease-up and substantial completion of tenant improvements, or (2) one year after cessation of major construction. For portfolio and operational data, a single in-service date is used. For GAAP reporting, a property is placed into service in stages as construction is completed and the property and tenant space is available for its intended use.

Table of Contents**Comparison of the three months ended September 30, 2008 and 2007****FFOM**

FFOM increased \$3.2 million, or 63.5%, from \$5.0 million in the three months ended September 30, 2007 to \$8.2 million for the three months ended September 30, 2008. The increase in FFOM is due to: (1) \$8.9 million increase in FFOM for the design-build and development segment, of which the majority of the segment's increase is due to the inclusion of Erdman's operating activity for the three months ended September 30, 2008; and (2) \$1.2 million increase in FFOM from property acquisitions and completed developments. These increases in FFOM were offset by a \$2.6 million increase in interest expense due to increased outstanding debt balances, \$2.4 million income tax expense primarily related to taxable income at the Erdman subsidiary, a \$0.9 million minority interest charge, and a \$1.3 million increase in corporate general and administrative expenses primarily due to increased incentive compensation expense and professional fees. The \$0.9 million minority interest charge is due to a consolidated real estate partnership's negative partner's equity that resulted from a debt refinance proceeds cash distribution to the 65.5% owner and subsequent cash distributions to the 65.5% owner and GAAP net losses. In accordance with GAAP, the consolidating partner is required to record a charge to minority interest for distributions and net losses when the partnership's partner's equity is negative.

See Note 5 to the accompanying consolidated financial statements 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 months ended September 30, 2008 and 2007 (in thousands, except per share and OP unit amounts):

	For the Three Months Ended	
	September	September
	30,	30,
	2008	2007
Net loss	\$ (1,086)	\$ (1,602)
Plus minority interests in operating partnership	(639)	(615)
Plus real estate related depreciation and amortization	7,494	7,180
Funds from Operations (FFO)	5,769	4,963
Plus amortization of intangibles related to purchase accounting, net of income tax benefit	2,390	26
Funds from Operations Modified (FFOM)	\$ 8,159	\$ 4,989

Revenue

Rental revenue increased \$3.2 million, or 19.7%, from \$16.4 million in the three months ended September 30, 2007 to \$19.6 million for the three months ended September 30, 2008. Rental revenue from acquisition properties and completed developments increased \$3.0 million. Same-property revenue increased \$0.3 million, or 1.7%, primarily due to general increases in rent related to Consumer Price Index (CPI) escalation clauses and increased rent from reimbursable expenses, offset by a reduction in occupancy.

Design-Build contract revenue and other sales revenue is due to the inclusion of Erdman's operating results for the three months ended September 30, 2008.

Development management and other income increased \$0.6 million due to the timing of development fee income from projects.

Expenses

Property operating and management expenses increased \$1.6 million, or 23.1%, from \$6.8 million in the three months ended September 30, 2007 to \$8.4 million for the three months ended September 30, 2008. Property operating and management expenses related to acquisition properties and completed developments increased \$1.2 million.

Same-property property operating and management expenses increased \$0.4 million, or 6.7%, primarily due to reimbursable expenses such as property taxes, insurance, and utilities.

Table of Contents

Costs related to design-build contract revenue and other sales revenue is due to the inclusion of Erdman's operating results for the three months ended September 30, 2008.

Selling, general, and administrative expenses increased \$6.1 million, or 396.0%. An increase of \$4.8 million is due to the inclusion of Erdman's operating results for the three months ended September 30, 2008. During the quarter ended September 30, 2008, the Company had increased accrued incentive based compensation expenses of \$0.7 million and increased legal and consulting professional fees of \$0.05 million.

Depreciation and amortization expense increased \$4.6 million, or 63.2%. There was an increase of \$4.0 million related to the amortization of Erdman intangible assets and an increase of \$0.3 million related to depreciation of Erdman fixed assets. Depreciation and amortization related to acquisition properties and completed developments increased \$0.8 million. Same-property depreciation and amortization decreased \$0.5 million.

Interest expense

Interest expense increased \$2.6 million, or 64.4%. The increase is due to an increase in outstanding debt balances offset by a lower weighted average interest rate. The weighted average interest rate at September 30, 2008 was 6.0% compared to 6.3% at September 30, 2007.

Income tax (expense) benefit

The income tax (expense) benefit for the three months ended September 30, 2008 was due to a taxable net income computed in accordance with SFAS 109 for the Erdman TRS due to the amortization of intangible assets. The income tax expense in 2007 was due to taxable net income computed in accordance with SFAS 109 for the CSA, LLC TRS, which was a result of property management activities.

Comparison of the nine months ended September 30, 2008 and 2007**FFOM**

FFOM increased \$8.1 million, or 61.0%, from \$13.2 million in the nine months ended September 30, 2007 to \$21.3 million for the nine months ended September 30, 2008. The increase in FFOM is due to: (1) \$15.4 million increase in FFOM for the design-build and development segment, of which the majority of the segment's increase is due to the inclusion of Erdman's operating activity for seven of the nine months ended September 30, 2008; and (2) \$4.5 million increase in FFOM from property acquisitions and completed developments. These increases in FFOM were offset by a \$7.4 million increase in interest expense due to increased outstanding debt balances, \$3.6 million in income tax expense primarily related to taxable income at the Erdman subsidiary, a \$0.9 million minority interest charge, and a \$2.9 million increase in corporate general and administrative expenses primarily due to \$1.7 million in increased accrued incentive compensation and equity compensation expense associated with LTIP units granted in connection with the Merger, \$0.4 million in severance compensation, and a \$0.8 million increase in legal and consulting professional fees. The \$0.9 million minority interest charge is due to a consolidated real estate partnership's negative partner's equity that resulted from a debt refinance proceeds cash distribution to the 65.5% owner and subsequent cash distributions to the 65.5% owner and GAAP net losses. In accordance with GAAP, the consolidating partner is required to record a charge to minority interest for distributions and net losses when the partnership's partner's equity is negative.

See Note 5 to the accompanying consolidated financial statements 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 nine months ended September 30, 2008 and 2007 (in thousands, except per share and OP Unit amounts):

Table of Contents

	For the Nine Months Ended	
	September	September
	30,	30,
	2008	2007
Net loss	\$ (4,731)	\$ (5,005)
Plus minority interests in operating partnership	(2,480)	(2,226)
Plus real estate related depreciation and amortization	22,896	20,395
Funds from Operations (FFO)	15,685	13,164
Plus amortization of intangibles related to purchase accounting, net of income tax benefit	5,594	77
Funds from Operations Modified (FFOM)	\$ 21,279	\$ 13,241

Revenue

Rental revenue increased \$12.3 million, or 27.1%, from \$45.3 million in the nine months ended September 30, 2007 to \$57.6 million for the nine months ended September 30, 2008. Rental revenue from acquisition properties and completed developments increased \$11.2 million, or 538.4%, from \$2.1 million in the nine months ended September 30, 2007 to \$13.3 million for the nine months ended September 30, 2008. Same-property revenue increased \$1.1 million, or 2.6%, primarily due to general increases in rent related to CPI escalation clauses and increased rent from reimbursable expenses, offset by a reduction in occupancy.

Design-Build contract revenue and other sales revenue is due to the seven month inclusion of Erdman's operating results for the nine months ended September 30, 2008.

Development management and other income decreased \$0.5 million due to the timing of development fee income from projects.

Expenses

Property operating and management expenses increased \$4.6 million, or 24.7%, from \$18.8 million in the nine months ended September 30, 2007 to \$23.4 million for the nine months ended September 30, 2008. Property operating and management expenses related to acquisition properties and completed developments increased \$4.1 million. Same-property property operating and management expenses increased \$0.5 million, or 3.0%, primarily due to reimbursable expenses such as property taxes, insurance, and utilities.

Costs related to design-build contract revenue and other sales revenue is due to the seven month inclusion of Erdman's operating results for the nine months ended September 30, 2008.

Selling, general, and administrative expenses increased \$15.1 million, or 285.1%. An increase of \$12.2 million is due to the inclusion of Erdman's operating results for seven of the nine months ended September 30, 2008. During the nine months ended September 30, 2008, the Company had increased expenses of \$2.9 million in corporate general and administrative expenses primarily due to \$1.7 million in increased accrued incentive compensation and equity compensation expense associated with LTIP units granted in connection with the Merger, \$0.4 million in severance compensation, and a \$0.8 million increase in legal and consulting professional fees.

Depreciation and amortization expense increased \$12.6 million, or 61.0%. There was an increase of \$9.0 million related to the amortization of Erdman intangible assets and an increase of \$1.0 million related to the depreciation of Erdman fixed assets. Depreciation and amortization related to acquisition properties and completed developments increased \$4.0 million. Same-property depreciation and amortization decreased \$1.4 million.

Interest expense

Interest expense increased \$7.4 million, or 65.1%. The increase is due to an increase in outstanding debt balances offset by a lower weighted average interest rate. The weighted average interest rate at September 30, 2008 was 6.0% compared to 6.3% at September 30, 2007.

Table of Contents**Income tax (expense) benefit**

The income tax benefit for the nine months ended September 30, 2008 was due to a taxable net income computed in accordance with SFAS 109 for the Erdman TRS due to the amortization of intangible assets. The income tax expense in 2007 was due to taxable net income computed in accordance with SFAS 109 for the CSA, LLC TRS, which was a result of development fees, a non-recurring brokerage commission, and property management activities.

Cash Flows**Comparison of the nine months ended September 30, 2008 and September 30, 2007**

Cash provided by operating activities was \$24.6 million and \$17.5 million for the nine months ended September 30, 2008 and 2007, respectively. The increase in cash provided by operating activities was \$7.1 million, which resulted from a \$7.4 million net decrease due to changes in operating assets and liabilities offset by a \$14.4 million increase in earnings before non-cash adjustments. The \$7.4 million net decrease due to changes in operating assets and liabilities was a result of: 1) \$9.6 million paid to Erdman personnel in March 2008 for fiscal year 2007 annual bonuses, profit sharing, and 401(k) employer matching, 2) \$9.5 million decrease in billings in excess of costs and estimated earnings on uncompleted contracts; offset by \$5.4 million in cash provided due to various changes in operating assets, accrued expenses, accrued incentive compensation, and prepaid rent accounts. The Company accrued the \$9.6 million for the Erdman fiscal year 2007 performance bonus payments as part of the Erdman purchase price allocation and the amount was included in the Erdman Merger working capital calculation.

Cash used in investing activities was \$187.1 million and \$96.3 million during the nine months ended September 30, 2008 and 2007, respectively. In the nine months ended September 30, 2008, the Company paid cash, net of cash assumed, of \$145.0 million (of which \$14.6 million related to an escrowed amount that is included in the restricted cash increase) related to the Erdman business acquisition as well as \$38.6 million related to property acquisitions and capital expenditures. In the nine months ended September 30, 2007, the Company's investment in real estate properties was related to development projects and the acquisition of three properties.

Cash provided by financing activities was \$169.6 million and \$80.9 million for the nine months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008, the Company received \$91.3 million, net of costs, from the issuance of common stock and the proceeds were used to reduce outstanding amounts payable on the Credit Facility. Also, during the nine months ended September 30, 2008, the Company received proceeds of \$100.0 million from the Term Loan and \$110.5 million from the Credit Facility, which were primarily used to fund the Erdman transaction and property acquisitions. For the nine months ended September 30, 2007, the Company received proceeds of \$78.4 million, net of costs, related to the issuance of common stock and the proceeds were used to reduce outstanding amounts payable on the Credit Facility.

Construction in Progress

Construction in progress at September 30, 2008, consisted of the St. Luke's Riverside MOB's and the Woodlands Center project. The following is a summary of the construction in progress balance (dollars in thousands):

		Estimated	Net Rentable Square Feet	Investment to Date	Estimated Total Investment
Property	Location	Completion Date			
St. Luke's Riverside MOB	Bethlehem, PA	2nd Half 2010	170,000	\$ 1,153	\$ 38,900
The Woodlands Center	Pensacola, FL	December 2009	76,000	6,186	24,769
Land and pre-construction developments				3,333	
			246,000	\$ 10,672	\$ 63,669

Liquidity and Capital Resources

As of September 30, 2008, the Company had approximately \$10.6 million available in cash and cash equivalents. The Company is required to distribute at least 90% of the Company's net taxable income, excluding net capital gains,

to the Company's stockholders on an annual basis due to qualification requirements as a REIT. Therefore, as a general matter, it is unlikely that the Company will have any substantial cash balances that could be used to meet the Company's liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

The Company has a \$150.0 million secured revolving Credit Facility with the Lenders. The Credit Facility is available to fund working capital and for other general corporate purposes; to finance acquisition and development activity; and to refinance existing and future indebtedness. The Credit Facility permits the Company to borrow up to \$150.0 million of revolving loans, with sub-limits of \$25.0 million for swingline loans and \$25.0 million for letters of credit.

The Credit Facility shall terminate and all amounts outstanding thereunder shall be due and payable in full three years from March 10, 2008. The Credit Facility provides for a one-year extension at the Company's option conditioned upon the Lenders being satisfied with the Company and its subsidiaries' financial condition and liquidity, and taking into consideration any payment, extension or refinancing of the Term Loan. The Credit Facility also allows for up to \$100.0 million of increased availability (to a total aggregate available amount of \$250.0 million), at the Company's option but subject to each Lender's option to increase its commitment. The interest rate on loans under the Credit Facility equals, at the Company's election, either (1) LIBOR (3.93% as of September 30, 2008) plus a margin of between 95 to 140 basis points based on the Company's total leverage ratio or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (5.00% as of September 30, 2008).

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to: (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the

Table of Contents

Company's REIT qualification and listing on the New York Stock Exchange, (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, and (3) financial covenants to be met by the Company at all times including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances issued after the closing date).

As of September 30, 2008, there was \$51.9 million available under the Credit Facility. There was \$90.0 million outstanding at September 30, 2008 and \$8.1 million of availability was restricted related to outstanding letters of credit.

The Company, through its Erdman TRS, has \$100.0 million outstanding under a \$100.0 million Term Loan which financed the cash portion of the Merger. Keybank Capital Markets is acting as sole lead arranger and sole book manager of the Term Loan. Bank of America, N.A. is acting as syndication agent. Branch Banking and Trust Company and Wachovia Bank, N.A. are acting as co-documentation agents. KeyBank National Association, Bank of America, N.A., Branch Banking and Trust Company, Wachovia Bank, National Association, M&I Marshall and Ilsley Bank, and Citicorp North America, Inc. are lenders thereunder. The Term Loan is secured by the stock and certain accounts receivables of Erdman and is guaranteed by the Company. The Term Loan matures on the third anniversary of its closing and is subject to a one-time right to a one-year extension at the Company's option (with the payment of an extension fee). The Term Loan contains customary covenants including, but not limited to, (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the Company's REIT qualification and listing on the New York Stock Exchange, (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, and (3) financial covenants to be met by the Company at all times under the guaranty including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances), as well as being cross defaulted to the Company's Credit Facility. In addition, there are financial covenants relating only to Erdman. The interest rate on loans under the Term Loan equals, at the Company's election, either (1) LIBOR (3.93% as of September 30, 2008) plus a margin of between 300 to 350 basis points based on certain Erdman performance ratios or (2) (i) the higher of the federal funds rate plus 50 basis points or KeyBank National Association's prime rate (ii) plus a margin of between 300 to 350 basis points based on certain Erdman performance ratios (5.00% as of September 30, 2008).

The Company believes that it will have sufficient capital resources as a result of operations and the borrowings in place to fund ongoing operations.

On September 11, 2008, the Company announced that the Board of Directors had declared a quarterly distribution of \$0.35 per share or OP Unit that was paid on October 20, 2008 to stockholders and holders of OP Units of record on September 26, 2008. The distribution covered the third quarter of 2008 and totaled \$9.4 million. The dividend and distribution were equivalent to an annual rate of \$1.40 per share and OP unit.

The Company funds the dividends and distributions through a combination of funds from operations and its Credit Facility. The Company uses borrowings available under its Credit Facility to fund dividend and distribution payments when the timing of the Company's cash flows available from operations is insufficient to meet distribution requirements.

Long-Term Liquidity Needs

The Company's principal long-term liquidity needs consist primarily of new property development, property acquisitions, principal payments under various mortgages and other credit facilities and non-recurring capital expenditures. The Company does not expect that its net cash provided by operations will be sufficient to meet all of these long-term liquidity needs. Instead, the Company expects to finance new property developments through modest cash equity capital contributed by the Company together with construction loan proceeds, as well as through

Table of Contents

cash equity investments by its tenants. The Company expects to fund property acquisitions through a combination of borrowings under its Credit Facility and traditional secured mortgage financing. In addition, the Company expects to use OP Units issued by the Operating Partnership to acquire properties from existing owners seeking a tax deferred transaction. Although capital markets continued to remain tight during 2008, the Company continues to expect to meet long-term liquidity requirements through net cash provided by operations 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. The Company may also issue unsecured debt in the future. The Company does not, in general, expect to meet its long-term liquidity needs through dispositions of its properties. In the event that the Company were to sell any of its properties in the future, depending on which property were to be sold, the Company 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, however, the proceeds that would be available to the Company from such sales may be reduced by amounts that the Company may owe under the tax protection agreements entered into in connection with the Company's formation transactions and certain property acquisitions. In addition, the Company's ability to sell certain of its assets could be adversely affected by the general illiquidity of real estate assets and certain additional factors particular to the Company's 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.

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

Contractual Obligations

The following table summarizes the Company's contractual obligations as of September 30, 2008, including the maturities and scheduled principal repayments and the commitments due in connection with the Company's ground leases and operating leases for the periods indicated (in thousands):

	Remainder of 2008	2009	2010	2011	2012	Thereafter	Total
Obligation:							
Long-term debt principal payments and maturities ⁽¹⁾	\$ 13,466	\$ 47,560	\$ 31,109	\$ 212,386	\$ 11,145	\$ 108,596	\$ 424,262
Standby letters of credit ⁽²⁾	5	8,048					8,053
Interest payments ⁽³⁾	6,372	24,371	21,447	10,051	6,832	19,742	88,815
Purchase commitments ⁽⁴⁾	245	139					384
Ground and air rights leases ⁽⁵⁾	79	314	314	314	315	9,946	11,282
Operating leases ⁽⁶⁾	1,440	4,800	3,731	3,202	3,101	27,776	44,050
Total	\$ 21,607	\$ 85,232	\$ 56,601	\$ 225,953	\$ 21,393	\$ 166,060	\$ 576,846

⁽¹⁾ Includes notes payable under the Company's Credit Facility.

- (2) As collateral for performance, the Company is contingently liable under standby letters of credit, which also reduces the availability under the Credit Facility.
- (3) Assumes one-month LIBOR of 3.93% and Prime Rate of 5.00%, which were the rates as of September 30, 2008.
- (4) These purchase commitments are related to the Company's development projects that are currently under construction.
- (5) 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.

- (6) Payments under operating lease agreements relate to various of our properties equipment and office space leases. The future minimum lease commitments under these leases are as indicated.

Table of Contents

Off-Balance Sheet Arrangements

The Company may guarantee debt in connection with certain of its development activities, including joint ventures, from time to time. As of September 30, 2008, the Company did not have any such guarantees or other off-balance sheet arrangements outstanding.

Real Estate Taxes

The Company's leases generally require the tenants to be responsible for all real estate taxes.

Inflation

The Company's leases at wholly-owned and consolidated partnership properties generally provide for either indexed escalators, based on the Consumer Price Index or other measures, or to a lesser extent fixed increases in base rents. The leases also contain provisions under which the tenants reimburse the Company for a portion of property operating expenses and real estate taxes. The Company's property management and related services provided to third parties typically provide for fees based on a percentage of revenues for the month as defined in the related property management agreements. The revenues collected from leases are generally structured as described above, with year over year increases. The Company also pays certain payroll and related costs related to the operations of third party properties that are managed by the Company. Under terms of the related management agreements, these costs are reimbursed by the third party property owners. The Company believes that inflationary increases in expenses will be offset, in part, by the contractual rent increases and tenant expense reimbursements described above.

Seasonality

The Design-Build and Development business 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 March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 is intended to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities by having the Company disclose: (1) how and why the Company uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company has not adopted SFAS 161 and is in the process of evaluating the impact of SFAS 161 on its consolidated financial statements.

In April 2008, the FASB issued Financial Statement Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP No. EITF 03-6-1 states that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders and should be included in basic and diluted earnings per share calculations. FSP No. EITF 03-6-1 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The Company is evaluating the impact FSP No. EITF 03-6-1 may have on its consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. FSP No. FAS 142-3 is effective for fiscal years, and interim periods within

Table of Contents

those fiscal years, beginning after December 15, 2008. The Company is evaluating the impact FSP No. FAS 142-3 may have on its consolidated financial statements.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 will be effective 60 days after the SEC's approval of the Public Company Accounting Oversight Board (PCAOB's) amendments to AU Section 411. The Company does not expect SFAS 162 to have an impact on its consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's 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. The Company uses some derivative financial instruments to manage, or hedge, interest rate risks related to the Company's borrowings. The Company does not use derivatives for trading or speculative purposes and only enters into contracts with major financial institutions based on their credit rating and other factors.

As of September 30, 2008, the Company had \$424.3 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of the Company's total consolidated debt, \$102.8 million, or 24.2%, was variable rate debt that is not subject to variable to fixed rate interest rate swap agreements. Of the Company's total indebtedness, \$321.4 million, or 75.8%, 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 6.2% as of September 30, 2008.

If LIBOR were to increase by 10%, or 39 basis points based on September 30, 2008 one-month LIBOR of 3.93%, the increase in interest expense on the Company's September 30, 2008 variable rate debt would decrease future annual earnings and cash flows by approximately \$0.4 million. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on the Company's 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, the Company may take actions to further mitigate the Company's 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 the Company's financial structure.

ITEM 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that as of the end of the period covered by this report, the Company's 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, 2008, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute 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.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The Company is not involved in any material litigation nor, to the Company's knowledge, is any material litigation pending or threatened against us, 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 the Company's business, financial condition or results of operations.

ITEM 1A. RISK FACTORS

See the Company's Annual Report on Form 10-K for the year ended December 31, 2007 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, for risk factors. There have been no significant changes to the Company's risk factors during the nine months ended September 30, 2008, other than those set forth in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.

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

None.

Issuer Purchases of Equity Securities

Below is a summary of equity repurchases by month for the three months ended September 30, 2008:

For the Month of	Total Number of Equity Securities Purchased	Average Price Paid Per Equity Security	Total Number of Equity Securities Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Equity Securities that May Yet Be Purchased Under the Plan
July 2008		\$	N/A	N/A
August 2008	6,016	18.61	N/A	N/A
September 2008			N/A	N/A
Total	6,016	\$18.61	N/A	N/A

These figures only relate to repurchases of OP Units by the Operating Partnership. The Company did not repurchase shares of Common Stock during the three months ended September 30, 2008.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None.

ITEM 5. OTHER INFORMATION

On August 29, 2008, the Compensation Committee of the Board of Directors of the Company approved certain compensation arrangements for the Company's executive officers for the year ending December 31, 2008. The compensation that the Company's named executive officers are eligible to receive for the year ending December 31, 2008 is as follows:

Frank C. Spencer, Chief Executive Officer and President: (i) base salary of \$500,000; (ii) annual achievement bonus of up to \$500,000, based on certain corporate-level strategic benchmarks; and (iii) annual incentive bonus of up to \$250,000, based on certain funds from operations modified (FFOM) growth benchmarks.

Mr. Spencer's annual achievement bonus and annual incentive bonus for 2008, if any, is payable in LTIP units.

Charles M. Handy, Chief Financial Officer: (i) base salary of \$275,000; (ii) annual achievement bonus of up to \$247,500, based on certain corporate-level strategic benchmarks, individual department-level goals and subjective evaluation by the Chief Executive Officer; (iii) LTIP unit grants of up to \$150,000, based on certain corporate-level strategic benchmarks, individual department-level goals and subjective evaluation by the Chief Executive Officer; and (iv) development project LTIP unit grants equal to 0.15% of the asset value of each of the Company's new completed and owned development projects.

Scott Ransom, President and Chief Executive Officer of Erdman Company: (i) base salary of \$315,000; (ii) annual bonus of up to \$315,000, based on certain performance goals and performance multipliers set by the Company's Chief Executive Officer and recommended to the Compensation Committee; (iii) LTIP unit grants of up to 16% of the amount by which Erdman's EBITDA exceeds certain strategic benchmarks; and (iv) development project LTIP unit grants equal to 0.5% of the asset value of each of the Company's new completed and owned development projects.

The actual amount of bonuses and LTIP unit grants for each named executive officer set forth above is subject to change in the Compensation Committee's discretion.

ITEM 6. EXHIBITS

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.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, 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 10, 2008

/s/ Frank C. Spencer
Frank C. Spencer
President and Chief Executive Officer

Date: November 10, 2008

/s/ Charles M. Handy
Charles M. Handy
Senior Vice President and Chief Financial Officer

40