

Cogdell Spencer Inc.
Form 10-Q
November 09, 2009

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, 2009

OR

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

For the transition period from ____ to ____

Commission file number 001-32649

COGDELL SPENCER INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

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

28209
(Zip code)

(704) 940-2900

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company .
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 42,552,984 shares of common stock, par value \$.01 per share, outstanding as of November 6, 2009.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | September 30, 2009 | December 31, 2008 |
|---|--------------------------|-------------------------|
| Assets | | |
| Real estate properties: | | |
| Land | \$30,673 | \$30,673 |
| Buildings and improvements | 508,431 | 501,259 |
| Less: Accumulated depreciation | (87,733) | (69,285) |
| Net operating real estate properties | 451,371 | 462,647 |
| Construction in progress | 52,260 | 15,314 |
| Net real estate properties | 503,631 | 477,961 |
| Cash and cash equivalents | 25,773 | 34,668 |
| Restricted cash | 13,188 | 12,964 |
| Tenant and accounts receivable, net of allowance of \$1,836 in 2009 and \$194 in 2008 | 17,910 | 43,523 |
| Goodwill | 108,683 | 180,435 |
| Trade names and trademarks | 41,240 | 75,969 |
| Intangible assets, net of accumulated amortization of \$42,598 in 2009 and \$38,054 in 2008 | 22,837 | 45,363 |
| Other assets | 29,241 | 29,207 |
| Total assets | \$762,503 | \$900,090 |
| Liabilities and equity | | |
| Mortgage notes payable | \$266,961 | \$240,736 |
| Revolving credit facility | 80,000 | 124,500 |
| Term loan | 50,000 | 100,000 |
| Accounts payable | 18,714 | 22,090 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 23,216 | 17,025 |
| Deferred income taxes | 14,635 | 34,176 |
| Payable to prior Erdman shareholders | 18,002 | 18,002 |
| Other liabilities | 47,751 | 60,567 |
| Total liabilities | 519,279 | 617,096 |
| Commitments and contingencies | | |
| Equity: | | |
| Cogdell Spencer Inc. stockholders' equity: | | |
| Preferred stock, \$0.01 par value; 50,000 shares authorized, none issued or outstanding | - | - |
| Common stock; \$0.01 par value; 200,000 shares authorized, 42,547 and 17,699 shares issued and outstanding in 2009 and 2008, respectively | 425 | 177 |
| Additional paid-in capital | 369,539 | 275,380 |
| Accumulated other comprehensive loss | (3,160) | (5,106) |
| Accumulated deficit | (161,604) | (77,438) |

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| | | |
|---|-----------|-----------|
| Total Cogdell Spencer Inc. stockholders' equity | 205,200 | 193,013 |
| Noncontrolling interests: | | |
| Real estate partnerships | 4,857 | 4,657 |
| Operating partnership | 33,167 | 85,324 |
| Total noncontrolling interests | 38,024 | 89,981 |
| Total equity | 243,224 | 282,994 |
| Total liabilities and equity | \$762,503 | \$900,090 |

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, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Revenues: | | | | |
| Rental revenue | \$20,049 | \$19,631 | \$59,376 | \$57,622 |
| Design-Build contract revenue and other sales | 30,298 | 72,914 | 113,399 | 174,870 |
| Property management and other fees | 816 | 852 | 2,530 | 2,524 |
| Development management and other income | 239 | 622 | 3,266 | 751 |
| Total revenues | 51,402 | 94,019 | 178,571 | 235,767 |
| Expenses: | | | | |
| Property operating and management | 8,163 | 8,370 | 23,975 | 23,403 |
| Design-Build contracts and development management | 21,166 | 59,578 | 92,573 | 146,907 |
| Selling, general, and administrative | 7,876 | 7,599 | 21,218 | 20,396 |
| Depreciation and amortization | 8,047 | 11,871 | 27,136 | 33,275 |
| Impairment charges | - | - | 120,920 | - |
| Total expenses | 45,252 | 87,418 | 285,822 | 223,981 |
| Income (loss) from operations before other income (expense) and income tax benefit (expense) | 6,150 | 6,601 | (107,251) | 11,786 |
| Other income (expense): | | | | |
| Interest and other income | 161 | 210 | 456 | 682 |
| Interest expense | (5,072) | (6,743) | (16,691) | (18,695) |
| Debt extinguishment and interest rate derivative expense | (10) | - | (2,501) | - |
| Equity in earnings (loss) of unconsolidated real estate partnerships | (4) | 10 | 4 | 18 |
| Total other income (expense) | (4,925) | (6,523) | (18,732) | (17,995) |
| Income (loss) from operations before income tax benefit (expense) | 1,225 | 78 | (125,983) | (6,209) |
| Income tax benefit (expense) | 231 | (883) | 22,065 | (143) |
| Net income (loss) | 1,456 | (805) | (103,918) | (6,352) |
| Net loss (income) attributable to the noncontrolling interest in: | | | | |
| Real estate partnerships | (17) | (920) | (158) | (859) |
| Operating partnership | (191) | 639 | 32,791 | 2,480 |
| Net income (loss) attributable to Cogdell Spencer Inc. | \$1,248 | \$(1,086) | \$(71,285) | \$(4,731) |
| Net income (loss) per share attributable to Cogdell Spencer Inc. - basic and diluted | | | | |
| | \$0.03 | \$(0.07) | \$(2.43) | \$(0.31) |
| Weighted average common shares - basic and diluted | 42,539 | 15,747 | 29,299 | 15,710 |

See notes to condensed consolidated financial statements.

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)
(unaudited)

Cogdell Spencer Inc. Stockholders

Accumulated

Noncontrolling
Interests

Other

Additional

in

Noncontrolling

Interests

in

Real

Total
Equity

Comprehensive
Loss

Accumulated
Deficit

Comprehensive
Loss

Common
Stock

Paid-in
Capital

Operating
Partnership

Interests
in
Real
Estate
Partnerships

| | | | | | | | | |
|---|------------|--------------|--------------|-------------|--------|------------|-----------|----------|
| Balance at December 31, 2008 | \$ 282,994 | \$ - | \$ (77,438) | \$ (5,106) | \$ 177 | \$ 275,380 | \$ 85,324 | \$ 4,657 |
| Comprehensive loss: | | | | | | | | |
| Net income (loss) | (103,918) | (103,918) | (71,285) | - | - | - | (32,791) | 158 |
| Unrealized gain on interest rate swaps, net of tax | 3,371 | 3,371 | - | 2,424 | - | - | 366 | 581 |
| Comprehensive loss | (100,547) | \$ (100,547) | | | | | | |
| Issuance of common stock, net of costs | 76,457 | | - | - | 230 | 76,227 | - | - |
| Conversion of operating partnership units to common stock | - | | - | (478) | 18 | 17,805 | (17,345) | - |
| Restricted stock and LTIP unit grants | 817 | | - | - | - | 80 | 737 | - |
| Amortization of restricted stock grants | 75 | | - | - | - | 47 | 28 | - |
| Dividends and distributions | (16,572) | | (12,881) | - | - | - | (3,152) | (539) |
| Balance at September 30, 2009 | \$ 243,224 | | \$ (161,604) | \$ (3,160) | \$ 425 | \$ 369,539 | \$ 33,167 | \$ 4,857 |

See notes to condensed consolidated financial statements.

COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In thousands)
(unaudited)
Cogdell Spencer Inc. Stockholders

| | Accumulated | | Accumulated | | Additional | | Noncontrolling | Noncontrolling |
|---------------------------|-------------|---------------|-------------|---------------|------------|------------|----------------|----------------|
| | Other | | Common | | Paid-in | | Interests | Interests |
| | Other | | Stock | | Capital | | in | in |
| | Total | Comprehensive | Accumulated | Comprehensive | Common | Paid-in | Operating | Real |
| | Equity | Loss | Deficit | Loss | Stock | Capital | Partnership | Estate |
| | | | | | | | Partnerships | Partnerships |
| B a l a n c e a t | | | | | | | | |
| December 31, 2007 | \$ 162,256 | \$ - | \$ (50,751) | \$ (884) | \$ 119 | \$ 166,901 | \$ 44,437 | \$ 2,434 |
| Comprehensive | | | | | | | | |
| loss: | | | | | | | | |
| Net income | | | | | | | | |
| (loss) | (6,352) | (6,352) | (4,731) | - | - | - | (2,480) | 859 |
| Unrealized gain | | | | | | | | |
| (loss) on interest | | | | | | | | |
| rate swaps, net of | | | | | | | | |
| tax | 1,469 | 1,469 | - | 872 | - | - | 626 | (29) |
| Comprehensive | | | | | | | | |
| loss | (4,883) | \$ (4,883) | | | | | | |
| Issuance of | | | | | | | | |
| common stock and | | | | | | | | |
| operating | | | | | | | | |
| partnership units, | | | | | | | | |
| net of costs | 148,754 | - | - | - | 57 | 91,288 | 57,409 | - |
| Contributed | | | | | | | | |
| equity in | | | | | | | | |
| partnership | 3,876 | | | | | | | 3,876 |
| Redemptions of | | | | | | | | |
| operating | | | | | | | | |
| partnership units | (476) | | - | - | - | - | (476) | - |
| Restricted stock | | | | | | | | |
| and LTIP unit | | | | | | | | |
| grants | 1,034 | | - | - | - | 94 | 940 | - |
| Amortization of | | | | | | | | |
| restricted stock | | | | | | | | |
| grants | 75 | | - | - | - | 47 | 28 | - |
| Dividends and | | | | | | | | |
| distributions | (27,418) | | (16,934) | - | - | - | (9,520) | (964) |
| Adjustment to | | | | | | | | |
| record change of | | | | | | | | |
| interest in the | | | | | | | | |
| operating | | | | | | | | |
| partnership due | | | | | | | | |
| to the issuance of | | | | | | | | |
| operating | | | | | | | | |
| | 14,502 | | - | - | - | 15,305 | (803) | - |

partnership
units in
excess of book
value

Balance at
September 30, 2008 \$ 297,720 \$ (72,416) \$ (12) \$ 176 \$ 273,635 \$ 90,161 \$ 6,176

See notes to condensed consolidated financial statements.

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

| | For the Nine Months Ended | |
|--|------------------------------|--------------------------|
| | September 30, 2009 | September 30, 2008 |
| Operating activities: | | |
| Net loss | \$(103,918) | \$(6,352) |
| Adjustments to reconcile net loss to cash provided by operating activities: | | |
| Depreciation and amortization | 27,136 | 33,275 |
| Amortization of acquired above market leases and acquired below market leases, net | (410) | (533) |
| Straight line rental revenue | (407) | (422) |
| Amortization of deferred finance costs and debt premium | 1,190 | 878 |
| Provision for bad debts | 1,642 | 135 |
| Deferred income taxes | (20,234) | (468) |
| Equity-based compensation | 893 | 1,110 |
| Equity in earnings (loss) of unconsolidated real estate partnerships | (4) | (18) |
| Change in fair value of interest rate swap agreements | (449) | - |
| Debt extinguishment and interest rate derivative expense | 2,501 | - |
| Impairment of goodwill, trade names and trademarks and intangible assets | 120,920 | - |
| Changes in operating assets and liabilities: | | |
| Tenant and accounts receivable and other assets | 23,921 | 13,515 |
| Accounts payable and other liabilities | (15,059) | (7,042) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 6,191 | (9,518) |
| Net cash provided by operating activities | 43,913 | 24,560 |
| Investing activities: | | |
| Business acquisitions, net of cash acquired | - | (130,264) |
| Investment in real estate properties | (40,671) | (38,633) |
| Purchase of noncontrolling interests in operating partnership | - | (754) |
| Proceeds from sales-type capital lease | 229 | 230 |
| Purchase of corporate property, plant and equipment | (1,586) | (1,068) |
| Distributions received from unconsolidated real estate partnerships | 8 | 5 |
| Increase in restricted cash | (224) | (16,585) |
| Net cash used in investing activities | (42,244) | (187,069) |
| Financing activities: | | |
| Proceeds from mortgage notes payable | 38,240 | 8,087 |
| Repayments of mortgage notes payable | (11,962) | (13,733) |
| Proceeds from revolving credit facility | 3,500 | 110,500 |
| Repayments to revolving credit facility | (48,000) | (99,700) |
| Proceeds from term loan | - | 100,000 |
| Repayment of term loan | (50,000) | - |
| Net proceeds from sale of common stock | 76,657 | 91,344 |
| Dividends and distributions | (17,173) | (22,831) |
| Equity contribution from noncontrolling interest in real estate partnerships | - | 517 |
| Distributions to noncontrolling interests in real estate partnerships | (539) | (963) |
| Payment of deferred financing costs | (1,287) | (3,630) |

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| | | |
|---|-----------|----------|
| Net cash provided by (used in) financing activities | (10,564) | 169,591 |
| Increase (decrease) in cash and cash equivalents | (8,895) | 7,082 |
| Balance at beginning of period | 34,668 | 3,555 |
| Balance at end of period | \$25,773 | \$10,637 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest, net of capitalized interest | \$16,004 | \$17,596 |
| Cash paid for income taxes | \$10 | \$3,039 |
| Supplemental cash flow information - noncash investing and financing activities: | | |
| Operating Partnership Units converted into common stock | \$17,345 | \$- |
| Debt assumed with purchase of property | - | 2,733 |
| Noncontrolling interest assumed with purchase of property | - | 3,359 |
| Investment in real estate properties included in accounts payable and other liabilities | 4,042 | 519 |
| Accrued dividends and distributions | 5,007 | 9,379 |
| Operating Partnership Units issued or to be issued in connection with the acquisition of a business or real estate property | - | 81,673 |

See notes to condensed consolidated financial statements.

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

1. Business Description

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Interim Financial Statements

The condensed consolidated financial statements for the three and nine months ended September 30, 2009 and 2008 are unaudited, but include all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the Company’s financial position, results of operations, changes in equity and cash flows for such periods. Operating results for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal years of 2009 or 2008 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, 2008 and should be read in conjunction with these interim financial statements.

Use of Estimates in Financial Statements

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

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

Fair Value Measurements

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with the Financial Accounting Standards Board ("FASB"), the Company adopted this definition for its financial assets and liabilities on January 1, 2008, and for all nonfinancial assets and nonfinancial liabilities on January 1, 2009. The adoption for non-financial assets and liabilities on January 1, 2009 did not have a material impact on the Company's consolidated financial position or results of operations.

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

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

The Company does not hold or issue financial instruments for trading purposes. The Company considers the carrying amounts of cash and cash equivalents, restricted cash, tenant and accounts receivable, accounts payable, and other liabilities to approximate fair value due to the short maturity of these instruments. The Company has estimated the fair value of debt utilizing present value techniques taking into consideration current market conditions. At September 30, 2009, the carrying amount and estimated fair value of debt was \$397.0 million and \$390.8 million, respectively. At December 31, 2008, the carrying amount and estimated fair value of debt was \$465.2 million and \$453.8 million, respectively.

See Note 7 regarding the write-down of the Company's goodwill and certain intangible assets to implied fair market value. See Note 8 regarding the fair value of the Company's interest rate swap agreements.

Concentrations and Credit Risk

The Company maintains its cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation ("FDIC") up to specific limits. Balances on deposit in excess of FDIC limits are uninsured. At September 30, 2009, the Company had bank cash balances of \$30.4 million in excess of FDIC insured limits.

Four customers accounted for more than 10% of tenant and accounts receivable at September 30, 2009 and one customer accounted for more than 10% of tenant and accounts receivable at September 30, 2008. One customer accounted for more than 10% of revenue for the three and nine months ended September 30, 2009. Zero customers accounted for more than 10% of revenue for the three and nine months ended September 30, 2008.

Subsequent Events

The Company evaluates significant unusual or infrequent events occurring after the financial statement date through the date the financial statements are issued, or available to be issued, to determine if additional disclosures are needed. As of November 9, 2009, the date the financial statements were available to be issued, no significant events have been identified, except those described in Note 3 within this Form 10-Q.

Recent Accounting Pronouncements

Effective July 1, 2009, the FASB established the Accounting Standards Codification (“ASC”) as the primary source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities. Although the establishment of the ASC did not change current GAAP, it did change the way current GAAP is referenced.

In December 2007, the FASB issued an accounting standard, codified in ASC 805, Business Combinations, relating to the accounting for and reporting of business combinations using the acquisition method of accounting, which significantly changes the principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. Among these changes, this standard redefines the measurement date of a business combination and requires most transaction costs to be expensed as incurred, and requires expanded disclosure requirements such as reasons for the business combination, amount of third-party related expenses incurred, and a description of the prior relationship between or among the parties. The standard also provides guidance for recognizing and measuring the goodwill acquired in the business combination and requires additional disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This standard is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. The adoption of this standard had no impact on the Company's balance sheet, statement of operations, or changes in equity on January 1, 2009.

In December 2007, the FASB issued an accounting standard, codified in ASC 810, Consolidation, which establishes the accounting for and reporting of noncontrolling interests ("NCI"), formerly referred to as minority interests, in partially owned consolidated subsidiaries and the accounting for and reporting of the change in control of subsidiaries. NCIs are to be reported as a component of equity separate from the parent's equity and purchases or sales of equity interests that do not result in a change in control are accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement and upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, except for the presentation and disclosure requirements, which will apply retrospectively. The Company implemented the standard effective January 1, 2009 and has applied the presentation and disclosure requirements retrospectively. Its adoption has resulted in an increase to equity as of December 31, 2008 of \$94.0 million for the reclassification of minority interest to equity for noncontrolling interests in consolidated entities as well as a \$4.1 million reclassification of Accumulated Other Comprehensive Loss from Cogdell Spencer Inc. stockholders' equity to noncontrolling interests as of December 31, 2008. Also, net loss for the three and nine months ended September 30, 2008 has decreased by \$0.3 and increased by \$1.6 million, respectively, for the reclassification of loss allocated to noncontrolling interests; however, net loss per common share attributable to Cogdell Spencer Inc. – basic and diluted was not affected by this reclassification.

In March 2008, the FASB issued an accounting standard, codified in ASC 815, Derivatives and Hedging, relating to disclosures about derivative instruments and hedging activities. The standard 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 GAAP and its related interpretations; and (3) how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. It also encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of the standard had no impact on the Company's balance sheet, statement of operations, or changes in equity on January 1, 2009. See Note 8 for additional disclosures.

In June 2008, the FASB issued an accounting standard, codified in ASC 260, Earnings Per Share, clarifying how certain unvested share-based payment awards are accounted for in the computation of earnings per common unit. The guidance states that unvested share-based payment awards containing non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per common unit pursuant to the two-class method. This guidance requires the retrospective adjustment of all prior-period earnings per common unit data presented (including interim financial statements, summaries of earnings, and selected financial data) to conform to the provisions of the standard. As a result, the Company's unvested LTIP

Units and restricted stock are considered participating securities and are included in the computation of basic and diluted earnings per common share of the Company if the effect of applying the if-converted method is dilutive. The adoption of this standard did not have a material impact on the Company's computation of earnings per common share on January 1, 2009.

In November 2008, the FASB issued an accounting standard, codified in ASC 323, Investments – Equity Method and Joint Ventures, relating to certain equity method investment accounting considerations. The standard states, among other things, that transaction costs for an investment should be included in the cost of the equity-method investment (and not expensed) and shares subsequently issued by the equity-method investee that reduce the investor's ownership percentage should be accounted for as if the investor had sold a proportionate share of its investment, with gains or losses recorded through earnings. The statement is effective for transactions occurring in fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of this standard had no impact on the Company's balance sheet, statement of operations, or changes in equity.

In April 2009, the FASB issued an accounting standard, codified in ASC 825, Financial Instruments, regarding interim disclosures about fair value of financial instruments. The standard essentially expands the disclosure about fair value of financial instruments that were previously required only annually to also be required for interim period reporting. In addition, the standard requires certain additional disclosures regarding the methods and significant assumptions used to estimate the fair value of financial instruments. This standard is effective for interim reporting periods ending after June 15, 2009. The additional disclosures required by the standard are included in Note 8 within this Form 10-Q.

In May 2009, the FASB issued an accounting standard, codified in ASC 855, Subsequent Events, relating to the disclosure of subsequent events. The standard incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, with the requirements concerning recognition and disclosure of subsequent events remaining essentially unchanged. This guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under the new standard, as under previous practice, an entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of subsequent events which provide evidence about conditions that did not exist at the balance sheet date. The new standard requires an entity, unlike previous practice, to disclose the date through which it has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. The statement is effective for interim and annual reporting periods ending after June 15, 2009. The additional disclosure required by the standard is included in Note 2 within this Form 10-Q.

In June 2009, the FASB issued an accounting standard, codified in ASC 810, Consolidation, which revises the consolidation guidance for variable-interest entities ("VIE"). The revisions include (1) no longer exempting qualifying special-purpose entities from the scope of the guidance, (2) requiring the continuous reconsideration for determining whether an enterprise is the primary beneficiary of another entity, (3) ignoring kick-out rights unless the rights are held by a single enterprise and (4) requiring consolidation if an entity has power and receives benefits or absorbs losses that are potentially significant to the VIE and not requiring consolidation if power is shared amongst unrelated parties. The revisions also include the enhancement of disclosure requirements. The standard is effective for interim and annual reporting periods beginning after November 15, 2009. The Company is still evaluating the effect of this standard on the Company's balance sheet, statement of operations, or changes in equity.

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-05, Measuring Liabilities at Fair Value, which provides additional guidance on how companies should measure liabilities at fair value under ASC 820. This update provides alternatives to measuring the fair value of liabilities when a quoted price for an identical liability traded in an active market does not exist. The alternatives include using the quoted price for the identical liability when traded as an asset or the quoted price of a similar liability or of a similar liability when traded as an asset, in addition to valuation techniques based on the amount an entity would pay to transfer the identical liability (or receive to enter into an identical liability). The update is effective for interim and annual reporting periods ending after August 28, 2009. The Company does not expect the update to have a material impact on the Company's balance sheet, statement of operations, or changes in equity.

3. Acquisitions

At September 30, 2009, related to the Erdman acquisition, there was \$18.0 million in escrow, which consisted of \$10.9 million in cash and \$7.1 million to be paid in Operating Partnership Units (“OP units”), which represents 446,779 OP units. Subsequent to September 30, 2009, the final escrow release related to the Erdman acquisition occurred. Per agreement between the Company and the MEA Holdings, Inc. Seller Representatives, \$5.0 million of the escrow was paid to the Company in consideration of full and final settlement of certain claims made by the Company in connection with the Erdman transaction. The \$5.0 million will be recorded as income during the three months ending December 31, 2009. During the fourth quarter of 2009, \$8.1 million of cash was released from the escrow to the Erdman sellers and 331,812 OP units were issued to the Erdman sellers.

4. Investments in Real Estate Partnerships

As of September 30, 2009, 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, and is 20.0% owned by the Company;
- BSB Health/MOB Limited Partnership No. 2, a Delaware limited partnership, founded in 2002, owns nine medical office buildings, and is 2.0% owned by the Company;
- Shannon Health/MOB Limited Partnership No. 1, a Delaware limited partnership, founded in 2001, owns ten medical office buildings, and is 2.0% owned by the Company; and
- McLeod Medical Partners, LLC, a South Carolina limited liability company, founded in 1982, owns three medical office buildings, and is 1.1% owned by the Company.

The following is a description of the consolidated entities:

- Genesis Property Holdings, LLC, a Florida limited liability company, founded in 2007, has one medical office building under construction, and is 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 is 80.9% owned by the Company;
- Mebane Medical Investors, LLC, a North Carolina limited liability company, founded in 2006, owns one medical office building, and is 35.1% owned by the Company; and
- Rocky Mount MOB, LLC, a North Carolina limited liability company, founded in 2002, owns one medical office building, and is 34.5% owned by the Company.

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

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

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

The unconsolidated entities are accounted for under the equity method of accounting based on the Company's inability to exercise significant influence as the entity's managing member or general partner. The following is a summary of financial information for the unconsolidated entities for the periods indicated and reflects the financial position and operations of these entities, not just the Company's interest in the entities (in thousands):

| | September 30, 2009 | December 31, 2008 |
|----------------------------|--------------------------|-------------------------|
| Financial position: | | |
| Total assets | \$55,414 | \$56,262 |
| Total liabilities | 49,434 | 49,831 |
| Members' equity | 5,980 | 6,431 |

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Results of operations: | | | | |
| Total revenues | \$2,974 | \$3,025 | \$9,189 | \$9,107 |
| Operating and general and administrative expenses | 1,624 | 1,555 | \$4,503 | 4,263 |
| Net income (loss) | (137) | (28) | \$374 | 446 |

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. Inter-segment sales and transfers are accounted for as if the sales and transfers were made to third parties, which involves applying a negotiated fee onto the costs of the services performed. All inter-company balances and transactions are eliminated during the consolidation process.

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

differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO and FFOM do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties.

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The following tables represent the segment information for the three and nine months ended September 30, 2009 and 2008 (in thousands):

| Three months ended September 30, 2009: | Property Operations | Design-Build and Development | Intersegment Eliminations | Unallocated and Other | Total |
|---|------------------------|------------------------------------|------------------------------|--------------------------|----------|
| Revenues: | | | | | |
| Rental revenue | \$20,072 | \$ - | \$ (23) | \$ - | \$20,049 |
| Design-Build contract revenue and other sales | - | 40,644 | (10,346) | - | 30,298 |
| Property management and other fees | 816 | - | - | - | 816 |
| Development management and other income | - | 723 | (484) | - | 239 |
| Total revenues | 20,888 | 41,367 | (10,853) | - | 51,402 |
| Certain operating expenses: | | | | | |
| Property operating and management | 8,163 | - | - | - | 8,163 |
| Design-Build contracts and development management | - | 31,169 | (10,003) | - | 21,166 |
| Selling, general, and administrative | - | 6,098 | (23) | - | 6,075 |
| Total certain operating expenses | 8,163 | 37,267 | (10,026) | - | 35,404 |
| | 12,725 | 4,100 | (827) | - | 15,998 |
| Interest and other income | 134 | 24 | - | 3 | 161 |
| Corporate general and administrative expenses | - | - | - | (1,801) | (1,801) |
| Interest expense | - | - | - | (5,072) | (5,072) |
| Debt extinguishment and interest rate derivative expense | - | - | - | (10) | (10) |
| Benefit from income taxes applicable to funds from operations modified | - | - | - | 6 | 6 |
| Non-real estate related depreciation and amortization | - | (190) | - | (57) | (247) |
| Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization | (1) | - | - | - | (1) |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | (206) | - | - | - | (206) |
| Funds from operations modified (FFOM) | 12,652 | 3,934 | (827) | (6,931) | 8,828 |
| Amortization of intangibles related to purchase | | | | | |
| accounting, net of income tax benefit | (42) | (536) | - | 225 | (353) |
| Funds from operations (FFO) | 12,610 | 3,398 | (827) | (6,706) | 8,475 |

| | | | | | |
|--|-----------|------------|-----------|------------|-----------|
| Real estate related depreciation and amortization | (7,225) | - | - | - | (7,225) |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | 206 | - | - | - | 206 |
| Net income (loss) | 5,591 | 3,398 | (827) | (6,706) | 1,456 |
| Net (income) attributable to the noncontrolling interest in: | | | | | |
| Real estate partnerships | (17) | - | - | - | (17) |
| Operating partnership | - | - | - | (191) | (191) |
| Net income (loss) attributable to Cogdell Spencer Inc. | \$5,574 | \$ 3,398 | \$ (827) | \$(6,897) | \$1,248 |
| Total assets | \$562,911 | \$ 199,116 | \$ - | \$476 | \$762,503 |

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| Three months ended September 30, 2008: | Property Operations | Design-Build and Development | Intersegment Eliminations | Unallocated and Other | Total |
|---|------------------------|------------------------------------|------------------------------|--------------------------|---------------|
| Revenues: | | | | | |
| Rental revenue | \$19,653 | \$ - | \$ (22) | \$ - | \$19,631 |
| Design-Build contract revenue and other sales | - | 74,276 | (1,362) | - | 72,914 |
| Property management and other fees | 852 | - | - | - | 852 |
| Development management and other income | - | 1,127 | (505) | - | 622 |
| Total revenues | 20,505 | 75,403 | (1,889) | - | 94,019 |
| Certain operating expenses: | | | | | |
| Property operating and management | 8,370 | - | - | - | 8,370 |
| Design-Build contracts and development management | - | 61,026 | (1,448) | - | 59,578 |
| Selling, general, and administrative | - | 5,048 | (183) | - | 4,865 |
| Total certain operating expenses | 8,370 | 66,074 | (1,631) | - | 72,813 |
| | 12,135 | 9,329 | (258) | - | 21,206 |
| Interest and other income | 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) |
| Non-real estate related depreciation and amortization | - | (348) | - | (57) | (405) |
| Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization | 13 | - | - | - | 13 |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | (977) | - | - | - | (977) |
| Funds from operations modified (FFOM) | 11,314 | 9,033 | (258) | (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) | 11,272 | 5,157 | - | (10,402) | 5,769 |
| Real estate related depreciation and amortization | (7,551) | - | - | - | (7,551) |
| Noncontrolling interests in real estate partnerships, before | 977 | - | - | - | 977 |

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real estate related depreciation and
amortization

| | | | | | |
|--|-----------|------------|------|------------|------------|
| Net income (loss) | 4,698 | 5,157 | - | (10,402) | (805) |
| Net loss (income) attributable to the noncontrolling interest in: | | | | | |
| Real estate partnerships | (920) | - | - | - | (920) |
| Operating partnership | - | - | - | 639 | 639 |
| Net income (loss) attributable to Cogdell Spencer Inc. | \$3,778 | \$ 5,157 | \$ - | \$(9,763) | \$(1,086) |
| Total assets | \$575,244 | \$ 308,878 | \$ - | \$952 | \$885,074 |

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| Nine months ended September 30, 2009: | Property Operations | Design-Build and Development | Intersegment Eliminations | Unallocated and Other | Total |
|---|------------------------|------------------------------------|------------------------------|--------------------------|----------------|
| Revenues: | | | | | |
| Rental revenue | \$59,445 | \$ - | \$ (69) | \$ - | \$59,376 |
| Design-Build contract revenue and other sales | - | 133,813 | (20,414) | - | 113,399 |
| Property management and other fees | 2,530 | - | - | - | 2,530 |
| Development management and other income | - | 5,793 | (2,527) | - | 3,266 |
| Total revenues | 61,975 | 139,606 | (23,010) | - | 178,571 |
| Certain operating expenses: | | | | | |
| Property operating and management | 23,975 | - | - | - | 23,975 |
| Design-Build contracts and development management | - | 112,236 | (19,663) | - | 92,573 |
| Selling, general, and administrative | - | 14,758 | (69) | - | 14,689 |
| Impairment charges | - | 120,920 | - | - | 120,920 |
| Total certain operating expenses | 23,975 | 247,914 | (19,732) | - | 252,157 |
| | 38,000 | (108,308) | (3,278) | - | (73,586) |
| Interest and other income | 404 | 28 | - | 24 | 456 |
| Corporate general and administrative expenses | - | - | - | (6,529) | (6,529) |
| Interest expense | - | - | - | (16,691) | (16,691) |
| Prepayment penalty on early extinguishment of debt | - | - | - | (2,501) | (2,501) |
| Benefit from income taxes applicable to funds from operations modified | - | - | - | 20,316 | 20,316 |
| Non-real estate related depreciation and amortization | - | (580) | - | (168) | (748) |
| Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization | 13 | - | - | - | 13 |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | (676) | - | - | - | (676) |
| Funds from operations modified (FFOM) | 37,741 | (108,860) | (3,278) | (5,549) | (79,946) |
| Amortization of intangibles related to purchase accounting, net of income tax benefit | (127) | (4,357) | - | 1,749 | (2,735) |
| Funds from operations (FFO) | 37,614 | (113,217) | (3,278) | (3,800) | (82,681) |
| | (21,913) | - | - | - | (21,913) |

| | | | | | |
|---|-----------|---------------|-------------|----------|-------------|
| Real estate related depreciation and amortization | | | | | |
| Noncontrolling interests in real estate partnerships, before | | | | | |
| real estate related depreciation and amortization | 676 | - | - | - | 676 |
| Net income (loss) | 16,377 | (113,217) | (3,278) | (3,800) | (103,918) |
| Net loss (income) attributable to the noncontrolling interest in: | | | | | |
| Real estate partnerships | (158) | - | - | - | (158) |
| Operating partnership | - | - | - | 32,791 | 32,791 |
| Net income (loss) attributable to Cogdell Spencer Inc. | \$16,219 | \$ (113,217) | \$ (3,278) | \$28,991 | \$(71,285) |
| Total assets | \$562,911 | \$ 199,116 | \$ - | \$476 | \$762,503 |

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| Nine months ended September 30, 2008: | Property Operations | Design-Build and Development | Intersegment Eliminations | Unallocated and Other | Total |
|---|---------------------|------------------------------|---------------------------|-----------------------|----------------|
| Revenues: | | | | | |
| Rental revenue | \$57,687 | \$ - | \$ (65) | \$ - | \$ 57,622 |
| Design-Build contract revenue and other sales | - | 176,232 | (1,362) | - | 174,870 |
| Property management and other fees | 2,524 | - | - | - | 2,524 |
| Development management and other income | - | 1,353 | (602) | - | 751 |
| Total revenues | 60,211 | 177,585 | (2,029) | - | 235,767 |
| Certain operating expenses: | | | | | |
| Property operating and management | 23,403 | - | - | - | 23,403 |
| Design-Build contracts and development management | - | 148,355 | (1,448) | - | 146,907 |
| Selling, general, and administrative | - | 13,012 | (464) | - | 12,548 |
| Total certain operating expenses | 23,403 | 161,367 | (1,912) | - | 182,858 |
| | 36,808 | 16,218 | (117) | - | 52,909 |
| Interest and other income | 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) |
| Non-real estate related depreciation and amortization | - | (772) | - | (176) | (948) |
| Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization | 27 | - | - | - | 27 |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | (1,128) | - | - | - | (1,128) |
| Funds from operations modified (FFOM) | 36,163 | 15,583 | (117) | (30,349) | 21,280 |
| Amortization of intangibles related to purchase accounting, net of income tax benefit | (127) | (9,043) | - | 3,576 | (5,594) |
| Funds from operations (FFO) | 36,036 | 6,540 | - | (26,773) | 15,686 |
| Real estate related depreciation and amortization | (23,166) | - | - | - | (23,166) |

| | | | | | |
|--|------------|------------|-------|--------------|-------------|
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | 1,128 | - | - | - | 1,128 |
| Net income (loss) | 13,998 | 6,540 | - | (26,773) | (6,352) |
| Net loss (income) attributable to the noncontrolling interest in: | | | | | |
| Real estate partnerships | (859) | - | - | - | (859) |
| Operating partnership | - | - | 2,480 | - | 2,480 |
| Net income (loss) attributable to Cogdell Spencer Inc. | \$ 13,139 | \$ 6,540 | \$ - | \$ (26,773) | \$ (4,731) |
| Total assets | \$ 575,244 | \$ 308,878 | \$ - | \$ 952 | \$ 885,074 |

6. Contracts

Revenue and billings to date on uncompleted contracts, from their inception, as of September 30, 2009 and December 31, 2008, are as follows (in thousands):

| | September 30, 2009 | December 31, 2008 |
|--|--------------------------|-------------------------|
| Costs and estimated earnings on uncompleted contracts | \$ 154,467 | \$ 165,891 |
| Billings to date | (173,933) | (176,210) |
| Net billings in excess of costs and estimated earnings | \$(19,466) | \$(10,319) |

These amounts are included in the condensed consolidated balance sheet at September 30, 2009 and December 31, 2008 as shown below (in thousands). At September 30, 2009 and December 31, 2008, the Company had retainage receivables of \$5.2 million and \$8.8 million, respectively, which are included in "Tenant and accounts receivable" in the condensed consolidated balance sheets.

| | September 30, 2009 | December 31, 2008 |
|--|--------------------------|-------------------------|
| Costs and estimated earnings in excess of billings (1) | \$3,750 | \$6,706 |
| Billings in excess of costs and estimated earnings | (23,216) | (17,025) |
| Net billings in excess of costs and estimated earnings | \$(19,466) | \$(10,319) |

(1) Included in "Other assets" in the consolidated balance sheets.

7. Goodwill and Intangible Assets

The Company reviews the value of goodwill and intangible assets on an annual basis and when circumstances indicate a potential impairment may exist. An interim review of the Design-Build and Development's intangible assets was performed on March 31, 2009, due to a decline in the Company's stock price, a decline in the cash flow multiples for comparable public engineering and construction companies, and changes in the cash flow projections for the Design-Build and Development business segment resulting from a decline in backlog and delays and cancellations of client building projects. The Company has determined an interim review has not been necessary since the previous impairment review was performed at March 31, 2009.

As a result of the March 31, 2009 review, the Company recorded, during the three months ended March 31, 2009, a pre-tax, non-cash impairment charge of (\$120.9 million) and the Company recognized a non-cash income tax benefit of \$19.2 million, resulting in an after-tax impairment charge of (\$101.7 million). The Company's goodwill, amortizing and non-amortizing intangible assets, and deferred tax liabilities associated with the Design-Build and Development business segment have been reduced from the December 31, 2008 carrying amounts as a result of the impairment charge.

The goodwill impairment review involved a two-step process. The first step was a comparison of the reporting unit's fair value to its carrying value. Fair value was estimated by using two approaches, an income approach and a market approach. Each approach was weighted 50% in the Company's analysis. The income approach uses the reporting unit's projected operating results and discounted cash flows using a weighted-average cost of capital that reflects current market conditions, which was 14.5% for the March 31, 2009 review. The cash flow projections use estimates of economic and market information over the projection period, including growth rates in revenues and costs and estimates of future expected changes in operating margins and cash expenditures. Other significant estimates and assumptions include terminal value growth rates, future estimates of capital expenditures, and changes in future working capital requirements. The market approach estimates fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and profitability characteristics. Additionally, the Company reconciled the total of the estimated fair values of all its reporting units to its market capitalization to determine if the sum of the individual fair values is reasonable compared to the external market indicators.

If the carrying value of the reporting unit is higher than its fair value, as it was for March 31, 2009, then an indication of impairment may exist and a second step must be performed to measure the amount of impairment. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill calculated in the same manner as if the reporting unit was being acquired in a business combination. If

the implied fair value of goodwill is less than the recorded goodwill, then an impairment charge for the difference would be recorded.

For non-amortizing intangible assets, the Company estimates fair value by applying an estimated market royalty rate, 2.0% for the March 31, 2009 review, to projected revenues and discounted using a weighted-average cost of capital that reflects current market conditions, which was 14.5% for the March 31, 2009 review.

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The following table presents information about the Company's goodwill and certain intangible assets measured at fair value as of March 31, 2009 (in thousands):

| Description | Recorded Value as of March 31, 2009 | Fair Value Measurement as of March 31, 2009 | | | Total Losses |
|---------------------------------|-------------------------------------|---|---------|-----------|--------------|
| | | Level 1 | Level 2 | Level 3 | |
| Goodwill | \$108,683 | \$- | \$- | \$108,683 | \$(71,755) |
| Trade names and trademarks | 41,240 | - | - | 41,240 | (34,728) |
| Acquired signed contracts | 1,398 | - | - | 5,281 | - |
| Acquired proposals | 2,129 | - | - | 2,129 | (1,833) |
| Acquired customer relationships | 1,789 | - | - | 1,789 | (12,604) |
| | \$155,239 | \$- | \$- | \$159,122 | \$(120,920) |

See Note 2 within this Form 10-Q for a discussion of the Company's accounting policy regarding the fair value of financial and non-financial assets.

The following table shows the change in carrying value from the measurement date of March 31, 2009 to September 30, 2009 (in thousands):

| Description | Recorded Value as of March 31, 2009 | Amortization for the | Recorded Value as of September 30, 2009 |
|---------------------------------|-------------------------------------|-------------------------------------|---|
| | | Six Months Ended September 30, 2009 | |
| Goodwill | \$108,683 | n/a | \$108,683 |
| Trade names and trademarks | 41,240 | n/a | 41,240 |
| Acquired signed contracts | 1,398 | \$ (932) | 466 |
| Acquired proposals | 2,129 | (789) | 1,340 |
| Acquired customer relationships | 1,789 | (153) | 1,636 |
| | \$155,239 | | \$153,365 |

The Company had goodwill of \$108.7 million and \$180.4 million at September 30, 2009 and December 31, 2008, respectively, and non-amortizing trade names and trademarks intangible assets of \$41.2 million and \$76.0 million at September 30, 2009 and December 31, 2008, respectively.

Amortizing intangible assets consisted of the following for the periods shown (in thousands):

| | September 30, 2009 | | December 31, 2008 | |
|--|--------------------|--------------------------|-------------------|--------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Acquired signed contracts | \$13,253 | \$ 12,787 | \$13,253 | \$ 11,389 |
| Acquired proposals | 2,129 | 789 | 6,168 | 886 |
| Acquired customer relationships | 1,789 | 153 | 15,732 | 644 |
| Acquired above market leases | 1,559 | 902 | 1,559 | 748 |
| Acquired in place lease value and deferred leasing costs | 41,046 | 26,931 | 41,046 | 23,573 |
| Acquired ground leases | 3,562 | 484 | 3,562 | 389 |

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| | | | | |
|--|----------|-----------|----------|-----------|
| Acquired property management contracts | 2,097 | 552 | 2,097 | 425 |
| Total amortizing intangible assets | \$65,435 | \$ 42,598 | \$83,417 | \$ 38,054 |

Amortization expense related to intangibles for the nine months ended September 30, 2009 and 2008 was \$8.0 million and \$13.9 million, respectively. Goodwill and trade names and trademarks are not amortized and are associated with the Design-Build and Development business segment. The Company expects to recognize amortization expense from the acquired intangible assets for the remainder of the current year 2009 and thereafter as follows (in thousands):

For the period ending: Future Amortization Expense

| | | |
|-------------------|----|-------|
| Remainder of 2009 | \$ | 1,539 |
| 2010 | | 5,034 |
| 2011 | | 3,269 |
| 2012 | | 2,276 |
| 2013 | | 1,379 |
| Thereafter | | 8,443 |

8. Mortgage Notes Payable and Borrowing Agreements

Term Loan

In the first nine months of 2009, Erdman experienced delays in client project starts and some contract cancellations and Erdman could face additional delays and cancellations over the next several quarters. Due to the uncertainty of Erdman's future operating results, the Company and the Term Loan lenders amended the Erdman senior secured term loan agreement ("Term Loan") in June 2009 and the Company repaid \$50.0 million of the \$100.0 million outstanding under the Term Loan. As a result of the amendment, all unamortized Term Loan deferred finance costs and costs paid to the lenders that were party to the amendment were expensed during the second quarter of 2009. The second quarter charge to debt extinguishment and interest rate derivative expense was approximately \$0.9 million, before income tax benefit. The Company recorded an income tax benefit of approximately \$0.4 million related to this charge. The amendment, among other things, amends certain financial covenants relating to Erdman, as well as certain other provisions of the Term Loan, including (1) the elimination of the minimum adjusted consolidated EBITDA covenant (previously \$22.5 million), (2) a modification of the maximum adjusted consolidated senior indebtedness to adjusted consolidated EBITDA covenant to 3.50 to 1.00 through March 2011, with a one-time ability to exceed 3.50 to 1.00 but not greater than 3.75 to 1.00, and 3.00 to 1.00 from April 2011 to final maturity (previously 4.25 to 1.00 as of March 31, 2009, decreasing to 3.75 to 1.00 as of July 1, 2009), (3) an increase in the interest rate from LIBOR plus 3.50% to LIBOR plus 4.50%, and (4) payment of a market based modification fee. The amendment was subject to the repayment of \$50.0 million of the outstanding balance under the Term Loan by the Borrower (which amount was repaid on June 3, 2009) and certain other customary terms and conditions.

Construction Financing

In January 2009, the Company obtained financing in an amount of \$14.8 million from a construction loan on the Medical Physicians Tower in Jackson, Tennessee. The loan provides for interest-only payments during the construction period at a rate of one-month LIBOR plus 2.50%, but not less than 4.50%. In September 2010, the loan converts to an amortizing loan with monthly payments based on a 25-year amortization schedule at an interest rate of LIBOR plus 2.50%. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 6.19% after the construction period through maturity. The loan matures September 2020.

In April 2009, the Company obtained financing in an amount of \$10.4 million from a construction loan on the University Physicians-Grants Ferry project in Brandon, Mississippi. The loan provides for interest-only payments during the construction period at a rate of one-month LIBOR plus 2.25%. In October 2010, the loan converts to an amortizing loan with monthly payments based on a 25-year amortization schedule at an interest rate of one-month LIBOR plus 2.25%. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 5.95% after the construction period through maturity. The loan matures April 2019.

In May 2009, the Company obtained financing in an amount of \$14.0 million from a construction loan on the HealthPartners Central Minnesota Clinic project in St. Cloud, Minnesota. The loan provides for interest-only payments during the construction period at a rate of LIBOR plus 3.25%, but not less than 6.0%. In December 2010, the loan converts to an amortizing loan with monthly payments based on a 22.5-year amortization schedule at an interest rate of LIBOR plus 3.25%, but not less than 6.0%. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 6.80% after the construction period through maturity. The loan matures November 2014.

Mortgage Notes Payable

In May 2009, the Company refinanced the mortgage note payable for Roper MOB, LLC, located in Charleston, South Carolina. The principal amount was increased from \$9.1 million to \$9.5 million and the additional proceeds were

used for working capital purposes. The note payable matures in June 2019 and requires monthly principal and interest payments based on a 25-year amortization. The interest rate is fixed at 7.1%.

In May 2009, the Company refinanced the mortgage note payable for the Medical Arts Center of Orangeburg in Orangeburg, South Carolina. There was no change in the principal balance of \$2.4 million at the time of refinance. The interest rate is LIBOR plus 3.25% (3.56% as of June 30, 2009) with a 6.0% minimum interest rate and the maturity date is May 2014.

In June 2009, the Company obtained mortgage financing for the Lancaster Rehabilitation Hospital property located in Lancaster, Pennsylvania. The \$9.7 million note payable matures in June 2014 and requires monthly principal and interest payments based on a 25-year amortization schedule. The interest rate is fixed at 6.71%. Proceeds were used to reduce borrowings under the secured revolving credit facility (the "Credit Facility") and for working capital purposes.

In August 2009, the Company completed construction on the Alamance Regional Cancer Center, an 8,527 square foot, 100% leased addition to the medical office building located in Mebane, North Carolina. In connection with this addition, the Company obtained a \$1.5 million mortgage note payable through Mebane Medical Investors, LLC, a consolidated real estate partnership of the Company. The mortgage note payable matures in May 2010 and has two one-year conditional extension options, an interest rate of LIBOR plus 4.00%, and monthly payments are interest only.

In August 2009, the Company refinanced the mortgage note payable for Rocky Mount Kidney Center, located in Rocky Mount, North Carolina, and extended the maturity date to August 2014. There was no change in the principle balance of \$1.0 million at the time of refinance. The interest rate is fixed at 6.75% and monthly principal and interest payments are based on a 15-year amortization schedule.

In October 2009, the Company obtained a \$7.5 million mortgage note payable that is collateralized by the Randolph Medical Park, Lincoln/Lakemont Family Practice Center, and Northcross Family Medical Practice Building properties, all of which are located in Charlotte, North Carolina. The mortgage note payable matures in October 2014, has a fixed interest rate of 7.00%, and requires monthly principal and interest payments based on a 20-year amortization. Proceeds were used for working capital purposes.

In October 2009, the Company exercised its extension option and extended the mortgage note payable for Methodist Professional Center I, located in Indianapolis, Indiana, for a two year period. Associated with this extension, the Company repaid \$4.5 million of the \$30.0 million outstanding principal. The extended \$25.5 million mortgage note payable matures in October 2011, has an interest rate of LIBOR plus 1.50%, and requires monthly principal and interest payments based on a 30-year amortization.

In October 2009, the Company refinanced the mortgage note payable for Hanover Medical Office Building On, located in Richmond, Virginia. The principal balance was increased from \$4.7 million to \$6.0 million and the \$1.3 million additional proceeds will be used for working capital purposes. The \$6.0 million mortgage note payable matures in November 2014, has a fixed interest rate of 7.35%, and requires monthly principal and interest payments based on a 25-year amortization.

Scheduled Maturities

The Company's mortgages are collateralized by property and principal and interest payments are generally made monthly. Scheduled maturities of mortgages, notes payable under the Credit Facility, and the Term Loan as of September 30, 2009, are as follows (in thousands, does not reflect October 2009 activity):

For the period ending:

| | |
|-------------------|-----------|
| Remainder of 2009 | \$ 35,583 |
| 2010 | 33,435 |
| 2011 | 158,077 |

| | |
|---------------------|------------|
| 2012 | 24,726 |
| 2013 | 15,533 |
| Thereafter | 129,448 |
| | 396,802 |
| Unamortized premium | 159 |
| | \$ 396,961 |

As of September 30, 2009, the Company had approximately \$35.6 million of principal and maturity payments related to mortgage note payables remaining due in 2009. In October 2009, \$25.5 million was extended to October 2011, \$4.7 million refinanced and now due in November 2014, and \$4.5 million was repaid in October 2009. The Company believes, based on the current loan to value ratios at individual properties and preliminary discussions with lenders, it will be able either to extend or refinance the remaining balloon maturities due in 2010. In addition, the Company has approximately \$87.5 million combined cash and cash equivalents and Credit Facility availability as of September 30, 2009, which exceeds the principal and maturity payments due in 2010.

At September 30, 2009, the Company believes it was in compliance with all its loan covenants. See "Liquidity and Capital Resources."

9. Derivative Financial Instruments

Interest rate swap agreements are utilized to reduce exposure to variable interest rates associated with certain mortgage notes payable, the Term Loan, and the Credit Facility. 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 condensed consolidated balance sheet within “Other assets” or “Other liabilities” and changes in the fair value, net of tax where applicable, are reported in accumulated other comprehensive income (loss) (“AOCI”) exclusive of ineffectiveness amounts. The following table summarizes the terms of the agreements and their fair values at September 30, 2009 and December 31, 2008 (dollars in thousands):

| Entity | Notional Amount as of September 30, 2009 | Receive Rate | Pay Rate | Effective Date | Expiration Date | September 30, 2009 | | December 31, 2008 | |
|---|--|---------------------|-------------|-------------------|--------------------|--------------------|-----------|-------------------|-----------|
| | | | | | | Asset | Liability | Asset | Liability |
| Indianapolis MOB LLC | \$ 30,000 | 1 Month LIBOR | 4.95 % | 11/2/2006 | 10/31/2009 | \$ - | \$ 207 | \$ - | \$ 1,106 |
| M E A Holdings, LLC | 100,000 | 1 Month LIBOR | 2.82 % | 4/1/2008 | 3/1/2011 | - | 2,770 | - | 3,458 |
| C o g d e l l Spencer LP | 30,000 | 1 Month LIBOR | 3.11 % | 10/15/2008 | 3/10/2011 | - | 962 | - | 1,218 |
| C o g d e l l Spencer LP | 14,344 | 1 Month LIBOR | 3.32 % | 10/15/2008 | 6/15/2011 | - | 576 | - | 687 |
| B e a u f o r t M e d i c a l Plaza, LLC | 4,795 | 1 Month LIBOR | 3.80 % | 8/18/2008 | 8/18/2011 | - | 243 | - | 296 |
| East Jefferson Medical Plaza | 11,600 | 1 Month LIBOR | 1.80 % | 1/15/2009 | 12/23/2011 | - | 125 | - | 81 |
| River Hills M e d i c a l Associates, LLC | 3,736 | 1 Month LIBOR | 1.78 % | 1/15/2009 | 1/31/2012 | - | 36 | - | 25 |
| St. Cloud MOB, LLC | 5,900 | 1 Month LIBOR | 3.55 % | 6/1/2010 | 11/1/2014 | - | 248 | - | - |
| C o g d e l l H e a l t h C a m p u s MOB, LP | 10,690 | 1 Month LIBOR | 4.03 % | 3/14/2008 | 3/2/2015 | - | 734 | - | 1,064 |
| G e n e s i s P r o p e r t y H o l d i n g s, LLC | 16,797 | 1 Month LIBOR | 4.71 % | 4/1/2010 | 10/1/2018 | - | 1,501 | - | 2,365 |
| W e s t Tennessee | 14,770 | 1 Month LIBOR | 3.69 % | 9/1/2010 | 3/1/2019 | - | 97 | - | - |

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| Investors, LLC | LIBOR | | | | | | | | | |
|----------------------------|---------------|--------|--------|-----------|----------|------|----------|------|------|-----------|
| Brandon MOB Investors, LLC | 1 Month LIBOR | 10,439 | 3.70 % | 10/1/2010 | 4/1/2019 | - | 49 | - | - | - |
| Roper MOB, LLC | n/a | - | n/a | n/a | n/a | - | - | - | - | 221 |
| | | | | | | \$ - | \$ 7,548 | \$ - | \$ - | \$ 10,521 |

The following tables show the effect of the Company's derivative instruments designated as cash flow hedges for the three and nine months ended September 30, 2009 (in thousands):

Three Months Ended September 30, 2009

| | Gain or (Loss) Recognized in AOCI, Noncontrolling Interests in Operating Partnership, and Noncontrolling Interests in Real Estate Partnerships - Effective Portion (1) | Location of Gain or (Loss) Reclassified from AOCI, Noncontrolling Interests in Operating Partnership, and Noncontrolling Interests in Real Estate Partnerships into Income - Effective Portion | Gain or (Loss) Reclassified from AOCI, Noncontrolling Interests in Operating Partnership, and Noncontrolling Interests in Real Estate Partnerships into Income - Effective Portion (1) | Location of Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing | Gain or (Loss) Recognized - Ineffective Portion and Amount Excluded from Effectiveness Testing |
|-------------------------------|--|--|--|--|--|
| Interest rate swap agreements | \$ (1,435) | Interest Expense | \$ (649) | Debt extinguishment and interest rate derivative expense | \$ (10) |

Nine Months Ended September 30, 2009

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

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| | Effective Portion (1) | Effective Portion | Effective Portion (1) | D e b t extinguishment and interest rate d e r i v a t i v e expense | |
|----------------------------------|--------------------------|-------------------|--------------------------|--|-------------|
| Interest rate swap agreements | \$ 3,371 | Interest Expense | \$ (3,389) | | \$ (1,539) |

(1) Refer to the Condensed Consolidated Statement of Changes in Equity of this Form 10-Q, which summarizes the activity in Unrealized gain on interest rate swaps, net of tax related to the interest rate swap agreements.

The following table presents information about the Company's liabilities measured at fair value on a recurring basis as of September 30, 2009, and indicates the fair value hierarchy referenced in Note 2 within this Form 10-Q, of the valuation techniques utilized by the Company to determine such fair value (in thousands):

| | Fair Value Measurements as of | | | |
|----------------------------------|-------------------------------|---------|------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Liabilities - | | | | |
| Derivative financial instruments | \$(7,548) | \$- | \$(7,548) | \$- |

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. To comply with GAAP, 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.

The Company previously entered into a \$100.0 million interest rate swap agreement in 2008 that fixed the floating rate portion of the \$100.0 million Term Loan. Due to the repayment and the amendment to the Term Loan in June 2009, approximately \$1.6 and \$0.3 million related to swap derivative hedge ineffectiveness was charged to debt extinguishment and interest rate derivative expense during the second and third quarter, respectively, of 2009. The non-cash charge represents the portion of the mark to market fair value liability of the interest rate swap agreement for which there are no more future interest payments under the Term Loan. During the second and third quarter of 2009, the Company recorded an income tax benefit of approximately \$0.6 and \$0.1 million, respectively, related to this charge, resulting in after-tax charge of approximately \$1.0 and \$0.2 million, respectively.

The \$100.0 million interest rate swap agreement was designated as a hedge instrument from its inception through June 3, 2009, the date of the \$50.0 million repayment and amendment of the Term Loan. The agreement was not designated as a hedge instrument from June 4, 2009, through July 19, 2009. On July 20, 2009, the agreement was re-designated as a hedge instrument and will be used to fix the floating rate portion on \$50.0 million outstanding on the Term Loan and \$50.0 million outstanding under the Credit Facility.

10. Equity

Cogdell Spencer Inc. Stockholders' Equity

In June 2009, the Company issued 23.0 million shares of common stock in a public offering, resulting in net proceeds to the Company of \$76.5 million. The net proceeds were used to fund the \$50.0 million repayment under the Term Loan, to reduce borrowings under the Credit Facility, and for working capital purposes.

The following is a summary of changes of the Company's common stock for the nine months ended September 30, 2009 and 2008 (in thousands):

| For the Nine Months Ended | |
|---------------------------|--------------------|
| September 30, 2009 | September 30, 2008 |
| | |

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| | | |
|---|--------|--------|
| Common stock balance at beginning of period | 17,699 | 11,948 |
| Issuance of common stock | 23,000 | 5,609 |
| Conversion of OP units to common stock | 1,835 | - |
| Restricted stock grants | 13 | 6 |
| Common stock balance at end of period | 42,547 | 17,563 |

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The following is net loss attributable to Cogdell Spencer Inc. and the issuance of common stock in exchange for redemptions of OP units for the nine months ended September 30, 2009 and 2008 (in thousands):

| | For the Nine Months Ended | |
|--|------------------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Net loss attributable to Cogdell Spencer Inc. | \$(71,285) | \$(4,731) |
| Increase in Cogdell Spencer Inc. additional paid-in capital for the conversion of OP units into common stock | 17,804 | - |
| Change from net loss attributable to Cogdell Spencer Inc. and transfers from noncontrolling interests | \$(53,481) | \$(4,731) |

Noncontrolling Interests in Operating Partnership

As of September 30, 2009, there were 50.1 million OP units outstanding, of which 42.5 million, or 85.0%, were owned by the Company and 7.5 million, or 15.0%, were owned by other limited partners, including certain directors, officers and other members of senior management. As of September 30, 2009, the fair market value of the OP units not owned by the Company was \$36.1 million, based on a market value of \$4.80 per unit, which was the closing stock price of the Company's shares of common stock on the New York Stock Exchange ("NYSE") on September 30, 2009. Cash distributions paid on OP units during the three and nine months ended September 30, 2009 were \$1.0 and \$4.8 million, respectively.

In October 2009, the Company issued 331,812 OP units relating to the final escrow release related to the Erdman acquisition. See Note 3 regarding the escrow agreement between the Company and the sellers.

Dividends and Distributions

On September 15, 2009, the Company announced that its Board of Directors had declared a quarterly dividend and distribution of \$0.10 per share and OP unit that was paid in cash on October 21, 2009 to stockholders and holders of OP units of record on September 25, 2009. The dividend and distribution covered the third quarter of 2009 and \$5.0 million is included in "Other liabilities" in the September 30, 2009 condensed consolidated balance sheet.

11. Incentive and Share-Based Compensation

The Company's 2005 Long-Term Stock Incentive Plan ("2005 Incentive Plan") provides for the grant of incentive awards to employees, directors and consultants to attract and retain qualified individuals and reward them for superior performance in achieving the Company's business goals and enhancing stockholder value. Awards issuable under the incentive award plan include stock options, restricted stock, dividend equivalents, stock appreciation rights, long-term incentive plan units ("LTIP units"), cash performance bonuses and other incentive awards. Only employees are eligible to receive incentive stock options under the incentive award plan. The Company has reserved a total of 1,000,000 shares of common stock for issuance pursuant to the 2005 Incentive Plan, subject to certain adjustments set forth in the plan. Each LTIP unit issued under the 2005 Incentive Plan will count as one share of stock for purposes of calculating the limit on shares that may be issued under the plan and the individual award limit discussed below.

In January 2009, the Company issued 500 LTIP units that vested upon issuance to one employee. The LTIP units were valued at \$9.31 per unit, which was the Company's closing stock price on the NYSE on the grant date. The Company has recorded compensation expense of less than \$0.1 million in connection with this issuance.

In February 2009, each non-employee member of the Company's Board of Directors was granted 6,569 shares of the Company's restricted stock or LTIP units, at each director's option, that all vested upon issuance. Messrs. Georgius, Lee, Lubar, and Neugent each elected to receive LTIP units and Mr. Jennings and Dr. Smoak each elected to receive shares of restricted stock. The restricted stock and LTIP units were valued at \$6.09 per share, which was the Company's closing stock price on the NYSE on the grant date. The Company has recorded compensation expense of \$0.2 million in connection with these issuances.

In February 2009, 3,334 LTIP units of previously issued, but unvested, LTIP units became vested based on 2008 Company performance. Compensation expense of \$0.1 million was recorded for the year ended December 31, 2008. As of March 31, 2009, there were 114,535 unvested LTIP units that will vest if, and when, the Company achieves certain performance standards as provided in the awards. Any portions of the unvested LTIP units that are not vested as of December 2015 are forfeited. As of September 30, 2009, the Company assessed the probability of the performance conditions being achieved and has recorded no compensation expenses associated with 2009 Company performance.

In February 2009, the Company issued an aggregate of 80,586 LTIP units, all of which vested upon issuance, to certain employees based on 2008 performance goals. The LTIP units were valued at \$6.09 per unit, which was the Company's closing stock price on the NYSE on the grant date. The Company accrued compensation expense in 2008 in connection with this issuance.

In February 2009, the Company issued 4,926 LTIP units to one employee that will vest in February 2010 if such employee's employment is maintained through February 2010. The LTIP units were valued at \$6.09 per unit, which was the Company's closing stock price on the NYSE on the grant date. The Company will record compensation expense for the year ended December 31, 2009 of less than \$0.1 million in connection with this issuance.

The following is a summary of restricted stock and LTIP unit activity for the nine months ended September 30, 2009 (in thousands, except weighted average grant price):

| | Restricted Stock | LTIP Units | Weighted Average Grant Price |
|---------------------------------------|---------------------|------------|------------------------------------|
| Unvested balance at December 31, 2008 | 12 | 118 | \$15.89 |
| Granted | 13 | 112 | 6.10 |
| Vested | (19) | (111) | 6.87 |
| Forfeited | (1) | - | 17.00 |
| Unvested balance at end of the period | 5 | 119 | \$15.43 |

12. 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 less than \$10,000 for each nine month period ended September 30, 2009 and 2008, respectively, are reflected in "Selling, general, and administrative" expenses in the condensed consolidated statement of operations.

The Company has certain design-build contracts for the construction of two medical facilities with certain entities in which Mr. Lubar, a member of the Company's Board of Directors, has an indirect ownership interest and is a director. Mr. Lubar resigned as an officer of these entities in 2008. The total contract amount for the two medical facilities was \$30.7 million and construction was in process at the time of the Erdman transaction. During 2008, construction was completed on one medical facility. For the three and nine months ended September 30, 2008, the Company recognized \$5.4 million and \$11.6 million of revenue, respectively, and at December 31, 2008 had accounts receivable of \$2.1 million and billings in excess of costs and estimated earnings on uncompleted contracts of \$2.1 million related to both projects. During the first quarter of 2009, construction was completed on the second medical facility and the Company recognized \$3.0 million of revenue in the first quarter of 2009 and no revenue was recognized during the second and third quarters of 2009. At September 30, 2009, had no accounts receivable or billings in excess of costs and estimated earnings on uncompleted contracts.

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 comply with financial covenants in its debt instruments;
- the Company's access to capital;
- 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;
- legislative and regulatory changes (including changes to laws governing the taxation of REITs and individuals);
- increases in costs of borrowing as a result of changes in interest rates and other factors;
- the Company's ability to maintain its qualification as a REIT due to economic, market, legal, tax or other considerations;
- 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;
- Erdman's customers' access to financing;
- delays in project starts and cancellations by Erdman's customers;
-

the timing of capital expenditures by healthcare systems and providers;

- 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.

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

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, delivery, acquisition, and management of strategically located medical office buildings and other healthcare related facilities in the United States of America. The Company has been built around understanding and addressing the full range of specialized real estate needs of the healthcare industry.

The Company derives a majority 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) from design-build services for healthcare customers. The Company expects that rental revenue will remain stable due to multi-year, non-cancellable leases with annual rental increases based on the Consumer Price Index ("CPI"). The Company's design-build revenue is derived from Erdman. The demand for Erdman's services has been, and will likely continue to be, cyclical in nature. In periods of adverse economic conditions, Erdman's customers may be unwilling or unable to make capital expenditures and they may be unable to obtain debt or equity financings for projects. As a result, customers may defer projects to a later date, which could reduce Erdman's revenues. Due to the current adverse economic environment and the volatility in the credit markets, Erdman is experiencing delays in client project starts and cancellations. As a result, the Company implemented a reduction in force in December 2008 and May 2009 and has reduced incentive compensation for 2009. The Company expects its design-build revenue and FFOM contribution from Erdman in 2009 to be less than 2008 revenue and FFOM contribution.

Generally, the Company's property operating revenues and expenses have remained consistent over time except for growth due to property developments and property and business acquisitions. Erdman's financial results can be affected by the amount and timing of capital spending by healthcare systems and providers, the demand for Erdman's services in the healthcare facilities market, the availability of construction level financing, and weather at the construction sites. Deterioration of market or economic conditions and volatility in the financial market has and could continue to influence future revenues, interest, and other costs, and could result in future impairment of goodwill or other intangible assets.

The Company reviews the value of goodwill and intangible assets on an annual basis and when circumstances indicate a potential impairment may exist. An interim review of the Design-Build and Development's intangible assets was performed on March 31, 2009, due to a decline in the Company's stock price, a decline in the cash flow multiples for comparable public engineering and construction companies, and changes in the cash flow projections for the Design-Build and Development business segment resulting from a decline in backlog and delays and cancellations of client building projects. The Company has determined an interim review has not been necessary since the previous impairment review performed at March 31, 2009.

As a result of the March 31, 2009 review, the Company recorded, during the three months ended March 31, 2009, a pre-tax, non-cash impairment charge of (\$120.9 million) and the Company recognized a non-cash income tax benefit of \$19.2 million, resulting in an after-tax impairment charge of (\$101.7 million). The Company's goodwill, amortizing and non-amortizing intangible assets, and deferred tax liabilities associated with the Design-Build and Development business segment have been reduced from the December 31, 2008 carrying amounts as a result of the impairment charge. See Note 7 of this Form 10-Q.

In January 2009, the Company began construction on a five-story, 107,000 square foot medical office building build to suit project in Jackson, Tennessee. This \$21.1 million project is 75% pre-leased and scheduled for completion during first quarter 2010. The Company expects to own approximately 75% of the building through a joint venture with physician tenant investors. The Company obtained financing in an amount of \$14.8 million from a construction mortgage note payable on the project. The mortgage note payable provides for interest-only payments during the construction period at a rate of LIBOR plus 2.50%, but not less than 4.50%. In September 2010, the loan converts to

an amortizing loan with monthly payments based on a 25-year amortization schedule and an interest rate of LIBOR plus 2.50%. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 6.19% after the construction period through maturity. The loan matures September 2020.

In May 2009, the Company began construction on a 60,000 square foot facility in St. Cloud, Minnesota. The \$20.2 million HealthPartners Central Minnesota Clinic is 94% pre-leased and scheduled for completion during the second quarter of 2010. The Company will own 100% of the facility and the Company's subsidiary, Erdman, will perform the development and design-build services. The Company obtained financing in an amount of \$14.0 million from a construction mortgage note payable on the facility. The mortgage note payable provides for interest-only payments during the construction period at a rate of LIBOR plus 3.25%, but not less than 6.0%. In December 2010, the loan converts to an amortizing loan with monthly payments based on a 22.5-year amortization schedule and an interest rate of LIBOR plus 3.25% but not less than 6.0%. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 6.80% after the construction period through maturity. The loan matures November 2014.

In June 2009, the Company began construction on a 50,575 square foot medical office building in Brandon, Mississippi to serve the communities of the Jackson, Mississippi metro area. The \$13.9 million University Physicians-Grants Ferry project is 100% pre-leased and scheduled for completion during the second quarter of 2010. The Company will own 100% of the project and the Company's subsidiary, Erdman, will perform the development and design-build services. The Company obtained financing in an amount of \$10.4 million from a construction mortgage note payable on the medical office building. The loan provides for interest-only payments during the construction period at a rate of LIBOR plus 2.25%. In October 2010, the loan converts to an amortizing loan with monthly payments based on a 25-year amortization schedule and an interest rate of LIBOR plus 2.25%. The Company has entered into a forward starting interest rate swap agreement that effectively fixes the interest rate at 5.95% after the construction period through maturity. The loan matures April 2019.

As of September 30, 2009, the Company's portfolio consisted of 113 medical office buildings and healthcare related facilities, serving 22 hospital systems in 12 states. The Company's aggregate portfolio at September 30, 2009, was comprised of 62 consolidated wholly-owned and joint venture properties, three unconsolidated joint venture properties (see Note 4 of the accompanying condensed consolidated financial statements in this Form 10-Q), and 48 managed medical office buildings. At September 30, 2009, approximately 77.8% of the net rentable square feet of the Company's wholly-owned properties were situated on hospital campuses. As such, the Company believes that its assets occupy a premier franchise location in relation to local hospitals, providing its properties with a distinct competitive advantage over alternative medical office space in an area. The Company believes that its property locations and relationships with hospitals will allow the Company to capitalize on the increasing healthcare trend of outpatient procedures.

At September 30, 2009, the Company's aggregate portfolio contained approximately 5.7 million net rentable square feet, consisting of approximately 3.3 million net rentable square feet from consolidated wholly-owned and joint venture properties, approximately 0.2 million net rentable square feet from unconsolidated joint venture properties, and approximately 2.2 million net rentable square feet from properties owned by third parties and managed by the Company. As of September 30, 2009, the Company's 62 in-service, consolidated wholly-owned and joint venture properties were approximately 90.6% occupied, with a weighted average remaining lease term of approximately 4.4 years.

Critical Accounting Policies

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

The preparation of financial statements in conformity with GAAP requires 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 consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008. 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.

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 consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008. 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.

Acquisition of Business

The price that the Company pays to acquire a business is impacted by many factors, including projected future cash flows, customer lists, contracts and proposals, trade names and trademarks, condition of property, plant, and equipment, and numerous other factors. Accordingly, the Company is required to make subjective assessments to allocate the purchase price paid to acquire investments in business 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 contacts, proposals, customer lists, workforce, trade names and trademarks, receivables, accruals and reserves, and property, plant, and equipment. 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 consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2008. These allocation assessments have a direct impact on the Company's results of operations because if the Company were to allocate more value to goodwill or a non-amortizing intangible asset there would be no amortization with respect to such amount or if the Company were to allocate more value to a longer-lived asset as opposed to allocating to a shorter-lived asset, this amount would be recognized as an expense over a longer period of time.

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, investments in real estate partnerships, and amortizing intangible assets annually and when circumstances, such as adverse market conditions, indicate that a potential impairment may exist. 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 (loss) because recording an impairment loss results in an immediate negative adjustment to operating results. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future sales, backlog, occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Because cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, 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. 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 and market approach on an annual basis and when circumstances indicate a potential impairment may exist. The Company's methodology to review goodwill impairment, which includes a significant amount of judgment and estimates, provides a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether or not goodwill is impaired are outside of the Company's control and it is likely that assumptions and estimates will change in future periods. These changes can result in future impairments which could be material.

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

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

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

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. 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 has 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.

Other income shown in the statement of operations generally includes interest income, primarily from the amortization of unearned income on a sales-type capital lease recognized in accordance with GAAP, and other income incidental to 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, 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 four taxable years following the year it failed to qualify as a REIT. The resulting adverse effects on the Company's results of operations, liquidity and amounts distributable to stockholders would be material.

Changes in Financial Condition

In June 2009, the Company issued 23.0 million shares of common stock in a public offering at a price of \$3.50 per share resulting in net proceeds to the Company of approximately \$76.5 million. The net proceeds were used to fund the \$50.0 million repayment under the Term Loan, to reduce borrowings under the Company's Credit Facility, and for working capital purposes. For more information on the Credit Facility and the Term Loan, see "Liquidity and Capital Resources."

Results of Operations

The Company's income (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 and Development business segment. For the nine months ended September 30, 2009, a significant proportion of the Company's loss from operations is due to the (\$101.7 million), net of tax, non-cash impairment charge discussed previously in the "Overview" section.

The Company acquired Erdman in March 2008 and results for the nine months ended September 30, 2008, reflect seven months of operating activity related to the Erdman subsidiary, reflecting operations from the acquisition date to September 30, 2008. For the nine months ended September 30, 2009, there are nine months of operating activity related to Erdman.

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 in this Form 10-Q.

Property Summary

The following is an activity summary of the Company's property portfolio (excluding unconsolidated partnership properties) for the three and nine months ended September 30, 2009 and 2008 and the year ended December 31, 2008:

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|-----------------------|-----------------------|-----------------------|------------------------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Properties at beginning of the period | 62 | 62 | 62 | 59 |
| Acquisitions | - | - | - | 2 |
| Developments | - | - | - | 1 |
| Properties at end of the period | 62 | 62 | 62 | 62 |
| | | | | Year Ended December 31, 2008 |
| Properties at January 1 | | | | 59 |
| Acquisitions | | | | 2 |
| Developments | | | | 1 |
| Properties at December 31 | | | | 62 |

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

The Company considers a property to be "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.

Comparison of the three and nine months ended September 30, 2009 and 2008

Funds from Operations Modified

For the three months ended September 30, 2009, FFOM increased \$0.7 million, or 8.2%, compared to the same period in the prior year. The increase is due primarily to lower interest expense and professional fee costs in the current period and the Company taking a real estate partnership minority interest charge in the prior period. See FFOM attributable to Property Operations below for further discussion. For the nine months ended September 30, 2009, FFOM, excluding impairment charge, net of income tax benefit, decreased \$0.5 million, or 2.4%, compared to the same period in the prior year. The decrease is due primarily to the decline in active projects for the design-build segment offset by the items referred to above. The following is a summary of FFOM for the three and nine months ended September 30, 2009 and 2008 (in thousands):

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| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | September | September | September | September |
| | 30, 2009 | 30, 2008 | 30, 2009 | 30, 2008 |
| FFOM attributable to: | | | | |
| Property operations | \$12,652 | \$11,314 | \$37,741 | \$36,163 |
| Design-Build and development, excluding impairment charge | 3,934 | 9,033 | 12,060 | 15,583 |
| Intersegment eliminations | (827) | (258) | (3,278) | (117) |
| Unallocated and other, excluding tax benefit of impairment charge | (6,931) | (11,930) | (24,723) | (30,349) |
| FFOM, excluding impairment charge, net of income tax benefit | 8,828 | 8,159 | 21,800 | 21,280 |
| Impairment charge, net of income tax benefit | - | - | (101,746) | - |
| FFOM | \$8,828 | \$8,159 | \$(79,946) | \$21,280 |

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See Note 5 to the accompanying condensed consolidated financial statements in this Form 10-Q for business segment information and management's use of FFO and FFOM to evaluate operating performance. The following table presents the reconciliation of FFO and FFOM to net income (loss), which is the most directly comparable GAAP measure to FFO and FFOM, for the three and nine months ended September 30, 2009 and 2008 (in thousands):

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|----------------------------|--------------------|---------------------------|--------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Net income (loss) | \$1,456 | \$(805) | \$(103,918) | \$(6,352) |
| Add: | | | | |
| Real estate related depreciation and amortization: | | | | |
| Wholly-owned and consolidated properties | 7,222 | 7,548 | 21,905 | 23,157 |
| Unconsolidated real estate partnerships | 3 | 3 | 8 | 9 |
| Less: | | | | |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | (206) | (977) | (676) | (1,128) |
| FFO | 8,475 | 5,769 | (82,681) | 15,686 |
| Amortization of intangibles related to purchase accounting, net of income tax benefit | 353 | 2,390 | 2,735 | 5,594 |
| FFOM | \$8,828 | \$8,159 | \$(79,946) | \$21,280 |

FFOM attributable to Property Operations

The following is a summary of FFOM attributable to property operations for the three and nine months ended September 30, 2009 and 2008 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Rental revenue | \$20,072 | \$19,653 | \$59,445 | \$57,687 |
| Property management and other fee revenue | 816 | 852 | 2,530 | 2,524 |
| Property operating and management expenses | (8,163) | (8,370) | (23,975) | (23,403) |
| Other income (expense) | 134 | 143 | 404 | 456 |
| Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization | (1) | 13 | 13 | 27 |
| Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization | (206) | (977) | (676) | (1,128) |
| FFOM | \$12,652 | \$11,314 | \$37,741 | \$36,163 |

See Note 5 of the accompanying condensed consolidated financial statements in the Form 10-Q for a reconciliation of above segment FFOM to net income (loss).

For the three and nine months ended September 30, 2009, FFOM attributable to property operations increased \$1.3 million, or 11.8%, and \$1.6 million, or 4.4%, compared to the same periods last year, respectively. The increase in rental revenue is primarily due to the addition of the Alamance Regional Mebane Outpatient Center property, which began operations in June 2008, as well as increases in rental rates associated with CPI increases and reimbursable expenses. The decrease in property operating and management expenses for the three months ended September 30, 2009, occurred due to the Company experiencing higher than normal utility costs in the third quarter of the prior year

due to weather. The increase in property operating and management expenses for the nine months ended September 30, 2009 is primarily due to the addition of the Alamance Regional Mebane Outpatient Center property. The change in noncontrolling interests in real estate partnerships before real estate related depreciation and amortization occurred primarily due a \$0.9 million minority interest charge in the third quarter of 2008. The minority interest charge was 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 GAAP net losses. In accordance with GAAP at the time of the distribution, the consolidating partner was required to record a charge to minority interest for distributions and net losses when the partnership's partners' equity was negative.

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

The Design-Build and Development segment includes Erdman, which the Company acquired in March 2008, and results for the three and nine months ended September 30, 2008, reflect three and seven months, respectively, of operating activity related to the Erdman subsidiary, reflecting operations from the acquisition date to September 30, 2008. Results for the three and nine months ended September 30, 2009, reflect three and nine months, respectively, of operating activity related to Erdman. The following is a summary of FFOM attributable to Design-Build and Development, net of intersegment eliminations, for the three and nine months ended September 30, 2009 and 2008 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Design-Build contract revenue and other sales | \$30,298 | \$72,914 | \$113,399 | \$174,870 |
| Development management and other income | 239 | 622 | 3,266 | 751 |
| Design-Build contract and development management expenses | (21,166) | (59,578) | (92,573) | (146,907) |
| Selling, general, and administrative expenses | (6,075) | (4,865) | (14,689) | (12,548) |
| Other income (expense) | 24 | 52 | 28 | 137 |
| Depreciation and amortization | (190) | (348) | (580) | (772) |
| FFOM, excluding impairment charge | 3,130 | 8,797 | 8,851 | 15,531 |
| Impairment charge | - | - | (120,920) | - |
| FFOM | \$3,130 | \$8,797 | \$(112,069) | \$15,531 |

See Note 5 of the accompanying condensed consolidated financial statements in the Form 10-Q for a reconciliation of above segment FFOM to net income (loss).

For the three and nine months ended September 30, 2009, FFOM, excluding impairment charge, attributable to design-build and development, net of intersegment eliminations, decreased \$5.7 million, or 64.4%, and \$6.7 million, or 43.0%, compared to the same periods last year.

For both the three and nine month periods ended September 30, 2009, compared to the same periods last year, design-build contract revenue and other sales and design-build contracts and development management expenses decreased due to a lower volume of activity. The number of active revenue generating construction projects decreased from 39 at September 30, 2008 to 24 at September 30, 2009. The decreased activity is due to the current economic environment, the volatility in the credit markets, and general uncertainty regarding government health care reform bills, which has resulted in clients delaying project starts and client project cancellations. The decrease for the nine months ended September 30, 2009, compared to the same period last year, was offset by two additional months of activity in 2009 as compared to 2008 because the Erdman acquisition occurred in March 2008.

For the three and nine months ended September 30, 2009, development management and other income decreased \$0.4 million, or 61.6%, and increased \$2.5 million, or 334.9%, respectively, compared to the same periods last year. The changes are due to the timing and volume of active development engagements during these periods.

For the three and nine months ended September 30, 2009, selling, general, and administrative expenses increased \$1.2 million, or 24.9%, and \$2.1 million, or 17.1%, respectively, compared to the same periods last year. The increase for the three months ended September 30, 2009, is primarily due to a \$1.6 million increase in the allowance for doubtful accounts, of which \$1.0 million related to one customer. The increase for the nine months ended September 30, 2009 was due to the \$1.6 million increase in the allowance for doubtful accounts and two additional months of costs in 2009 as compared to 2008 because the Erdman acquisition occurred in March 2008. Both increases were offset by fewer

employees in 2009 as compared to 2008 due to reductions in force that occurred in December 2008 and May 2009 and the reduction of incentive compensation in 2009 due to the decreased profitability related to the business segment.

Gross margin percentage (defined as design-build contract revenue and other sales less design-build contract and development management expenses as a percentage of design-build contract revenue and other sales) was 30.1% and 18.3% for the three months ended September 30, 2009 and 2008, respectively, and 18.4% and 16.0% for the nine months ended September 30, 2009 and 2008, respectively. The increase is primarily due to the Company's efforts in reducing design-build costs of sales, which comprised of both internal costs and third party sub-contractor costs.

Selling, general, and administrative

For the three and nine months ended September 30, 2009, selling, general, and administrative expenses increased \$0.3 million, or 3.6%, and \$0.8 million, or 4.0%, as compared to the same period last year. Excluding the increase attributable to the Design-Build and Development segment, which is discussed above, selling, general and administrative decreased \$0.9 million and \$1.3 million, respectively, due to lower professional fee expenses.

Depreciation and amortization

For the three months ended September 30, 2009, depreciation and amortization expenses decreased \$3.8 million, or 32.2%, as compared to the same period last year. The decrease is primarily due to a decrease in intangible amortization related to the Erdman acquisition. As a result of the impairment recorded in the first quarter of 2009, the intangible asset values are smaller and the resulting amortization is lessened.

For the nine months ended September 30, 2009, depreciation and amortization expenses decreased \$6.1 million, or 18.4%, as compared to the same period last year. The decrease was due to the reasons discussed above as well as a decrease in the amortization of acquired in place lease intangible assets associated with properties acquired in 2005 as they have become fully amortized, offset by two additional months of expense in 2009 as compared to 2008 because the Erdman acquisition occurred in March 2008.

Impairment charge

The Company reviews the value of goodwill and intangible assets on an annual basis and when circumstances indicate a potential impairment may exist. An interim review of the Design-Build and Development's intangible assets was performed on March 31, 2009, due to a decline in the Company's stock price, a decline in the cash flow multiples for comparable public engineering and construction companies, and changes in the cash flow projections for the Design-Build and Development business segment resulting from a decline in backlog and delays and cancellations of client building projects. The Company has determined an interim review has not been necessary since the previous impairment review performed at March 31, 2009.

As a result of the March 31, 2009 review, the Company recorded, during the three months ended March 31, 2009, a pre-tax, non-cash impairment charge of (\$120.9 million) and the Company recognized a non-cash income tax benefit of \$19.2 million, resulting in an after-tax impairment charge of (\$101.7 million). The Company's goodwill, amortizing and non-amortizing intangible assets, and deferred tax liabilities associated with the Design-Build and Development business segment have been reduced from the December 31, 2008 carrying amounts as a result of the impairment charge.

There was no such charge in the same periods last year.

Interest expense

For the three months ended September 30, 2009, interest expense decreased \$1.7 million, or 24.8%, as compared to the same period last year. The decrease was due to a decrease in variable interest rates and lower debt balances as the Company used a majority of the proceeds from its June 2009 and September 2008 equity offerings to repay debt.

For the nine months ended September 30, 2009, interest expense decreased \$2.0 million, or 10.7%, as compared to the same period last year. The decrease was due to the reasons discussed above, offset by two additional months of interest expense in 2009 compared to 2008.

Income tax benefit (expense)

For the three months ended September 30, 2009, income tax benefit increased \$1.1 million, or 126.2%, as compared to the same period last year. The increase was primarily due to the decreased FFOM for the Design-Build and Development segment for the comparable period.

For the nine months ended September 30, 2009, income tax benefit increased \$22.2 million, or 15,530.1%, as compared to the same period last year. The increase was primarily due to the non-cash income tax benefit associated with the goodwill and intangible asset impairment charge recorded during the first quarter of 2009 as well as decreased FFOM for the Design-Build and Development segment for the comparable period and debt extinguishment and interest rate derivative expenses that occurred in the second quarter of 2009.

Net income (loss) attributable to the noncontrolling interest in Operating Partnership

For the three months ended September 30, 2009, net income (loss) attributable to the noncontrolling interest in Operating Partnership decreased \$0.8 million, or 129.9%, as compared to the same period last year. The decrease was due to the current quarter's net income, offset by a smaller noncontrolling ownership percentage due to the common stock equity raise in June 2009.

For the nine months ended September 30, 2009, net income (loss) attributable to the noncontrolling interest in Operating Partnership increased \$30.3 million, or 1,222.2%, as compared to the same period last year. The increase was primarily due to the increase in net loss, which primarily increased due to the impairment charge.

Cash Flows

Comparison of the nine months ended September 30, 2009 and 2008

Cash provided by operating activities increased \$19.4 million for the nine months ended September 30, 2009, as compared to the same period last year, and is summarized below for the nine months ended September 30, 2009 and 2008 (in thousands):

| | Nine Months Ended | |
|---|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Net income (loss) plus non-cash adjustments | \$28,860 | \$27,605 |
| Changes in operating assets and liabilities | 15,053 | (3,045) |
| Net cash provided by operating activities | \$43,913 | \$24,560 |

The net income (loss) plus non-cash adjustments increased \$1.3 million, or 4.5%, for the nine months ended September 30, 2009, as compared to the same period last year. The increase is primarily due to the timing and recognition of non-cash deferred income taxes, offset by two additional months of Erdman activities in 2009 compared to 2008 due to the Erdman acquisition that occurred in March 2008. The changes in operating assets and liabilities increased \$18.1 million, or 594.4%, for the nine months ended September 30, 2009, as compared to the same period last year. The increase is primarily due to the following: 1) a decrease in Design-Build and Development accounts receivable, which increases cash provided by operations, 2) an increase in Design-Build and Development billings in excess of costs and estimated earnings on uncompleted contracts, which increases cash provided by operations, 3) decreased incentive compensation accrued liabilities, which increases cash provided by operations, and 4) severance costs paid in the first quarter of 2009 compared to no such payments in 2008, which decreases cash provided by operations.

Cash used in investing activities decreased \$144.8 million, or 77.4%, for the nine months ended September 30, 2009, as compared to the same period last year. The decrease is primarily due to the cash paid for the Erdman transaction in 2008. The increase in purchases of corporate property, plant, and equipment is primarily due the construction of a steel fabrication facility for Erdman. Erdman is currently leasing a facility on a month-to-month basis. Investment in real estate properties consisted of the following for the nine months ended September 30, 2009 and 2008 (in thousands):

| | Nine Months Ended | |
|--|-----------------------|-----------------------|
| | September 30, 2009 | September 30, 2008 |
| Development, redevelopment, and acquisitions | \$37,671 | \$33,130 |
| Second generation tenant improvements | 2,832 | 4,032 |

| | | |
|---|----------|----------|
| Recurring property capital expenditures | 168 | 1,471 |
| Investment in real estate properties | \$40,671 | \$38,633 |

Cash provided by financing activities decreased \$180.2 million, or 106.2%, for the nine months ended September 30, 2009, as compared to same period last year. The decrease is primarily due to fewer debt and equity proceeds received in 2009 compared to 2008.

Construction in Progress

Construction in progress consisted of the following as September 30, 2009 (dollars in thousands):

| Property | Location | Estimated Completion Date | Net Rentable Square Feet | Investment to Date | Estimated Total Investment |
|---|---------------|---------------------------|--------------------------|--------------------|----------------------------|
| The Woodlands Center for Specialized Medicine | Pensacola, FL | 4Q 2009 | 76,000 | \$ 19,385 | \$ 25,900 |
| The Medical Physicians Tower | Jackson, TN | 1Q 2010 | 107,000 | 15,335 | 21,100 |
| HealthPartners Central Minnesota Clinic | St. Cloud, MN | 2Q 2010 | 60,000 | 7,943 | 20,200 |
| University Physicians - Grants Ferry | Brandon, MS | 2Q 2010 | 50,600 | 6,510 | 13,900 |
| Land and pre-construction developments | | | - | 3,087 | - |
| | | | 293,600 | \$ 52,260 | \$ 81,100 |

Liquidity and Capital Resources

As of September 30, 2009, the Company had approximately \$25.8 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 a syndicate of financial institutions (including 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.) (collectively, 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 will terminate and all amounts outstanding thereunder shall be due and payable in March 2011. 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. There can be no assurance if and on what terms the Lenders may be willing to extend the Credit Facility upon its maturity in March 2011.

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 (0.25% as of September 30, 2009) plus a margin of between 95 to 140 basis points based on the Company's total leverage ratio (1.15% as of September 30, 2009) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (3.25% as of September 30, 2009).

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 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).

As of September 30, 2009, there was \$61.7 million available under the Credit Facility. There was \$80.0 million outstanding at September 30, 2009 and \$8.3 million of availability was restricted related to outstanding letters of credit.

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The Credit Facility has the following financial covenants as of September 30, 2009 (dollars in thousands):

| Financial Covenant | As of and for the 12 Months Ended September 30, 2009 |
|--|--|
| Maximum total leverage ratio (0.70 to 1.00) | 0.49 to 1.00 |
| Maximum real estate leverage ratio (0.70 to 1.00) | 0.55 to 1.00 |
| Minimum fixed charge coverage ratio (1.50 to 1.00) | 2.21 to 1.00 |
| Minimum consolidated tangible net worth (\$141,983) | \$195,645 |
| Maximum total debt to real estate value ratio (0.90 to 1.00) | 0.63 to 1.00 |

The Company, through Erdman, has \$50.0 million outstanding under a \$50.0 million Term Loan. The Term Loan was initially \$100.0 million and the Company repaid \$50.0 million in June 2009. The Term Loan is secured by the stock and certain accounts receivable of Erdman and is guaranteed by the Company. The Term Loan matures in March 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 similar to the Credit Facility and 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.

The current economic environment and the volatility in the credit markets have affected and, most likely, will continue to affect the Company's results of operations and financial position and in particular, the results of operations and financial position of Erdman. In the first nine months of 2009, Erdman experienced delays in client project starts and some contract cancellations, and Erdman could face additional delays and cancellations over the next several quarters. Due to the uncertainty of Erdman's future operating results, the Company and the Term Loan lenders amended the Term Loan in June 2009. The amendment, among other things, amended certain financial covenants relating to Erdman, as well as certain other provisions of the Term Loan, including (1) the elimination of the minimum adjusted consolidated EBITDA covenant (previously \$22.5 million), (2) a modification of the maximum adjusted consolidated senior indebtedness to adjusted consolidated EBITDA covenant to 3.50 to 1.00 through March 2011, with a one-time ability to exceed 3.50 to 1.00 but not greater than 3.75 to 1.00, and 3.00 to 1.00 from April 2011 to final maturity (previously 4.25 to 1.00 as of March 31, 2009, decreasing to 3.75 to 1.00 as of July 1, 2009), (3) an increase in the interest rate from LIBOR plus 3.50% to LIBOR plus 4.50%, and (4) payment of a market based modification fee. The amendment was subject to the repayment of \$50.0 million of the outstanding balance under the Term Loan by the Borrower (which amount was repaid on June 3, 2009) and certain other customary terms and conditions.

The Term Loan, as amended, also has the following financial covenants relating only to Erdman as of September 30, 2009:

| Financial Covenant | As of and for the |
|--------------------|-------------------|
|--------------------|-------------------|

12 Months Ended
September 30, 2009

| | |
|---|--------------|
| Minimum adjusted consolidated EBITDA to consolidated fixed charges (2.00 to 1.00) | 3.24 to 1.00 |
|---|--------------|

| | |
|--|--------------|
| Maximum consolidated senior indebtedness to adjusted consolidated EBITDA (3.50 to 1.00, with a one-time ability to exceed 3.50 to 1.00, but not greater than 3.75 to 1.00) | 2.55 to 1.00 |
|--|--------------|

| | |
|--|--------------|
| Maximum consolidated indebtedness to adjusted consolidated EBITDA (5.50 to 1.00) | 2.55 to 1.00 |
|--|--------------|

If the Company were in default under the Credit Facility or the Term Loan, then the Lenders can declare the Company in default under the other agreement as well. As of September 30, 2009, the Company believes that it is in compliance with all of its debt covenants under the Credit Facility and the Term Loan.

Short-Term Liquidity Needs

The Company believes that it will have sufficient capital resources as a result of operations and the borrowings in place to fund ongoing operations and distributions required to maintain REIT compliance. As of September 30, 2009, the Company had approximately \$35.6 million of principal and maturity payments related to mortgage note payables remaining due in 2009. In October 2009, \$25.5 million was extended to October 2011, \$4.7 million refinanced and \$6.0 million is now due in November 2014, and \$4.5 million was repaid in October 2009. For additional information regarding the Company's borrowings, see Note 7 to the accompanying condensed consolidated financial statements in this Form 10-Q. Regarding the approximately \$33.4 million due in 2010, the Company believes, based on the current loan to value ratios at individual properties and preliminary discussions with lenders, it will be able either to extend or refinance the \$29.6 million in balloon maturities due in 2010. In addition, the Company has approximately \$87.5 million combined cash and cash equivalents and Credit Facility availability as of September 30, 2009, which exceeds the principal and maturity payments due in 2010. The Company expects to fund interest payments from cash generated from property operations and design-build and development earnings before interest, taxes, and depreciation and amortization.

As of September 30, 2009, the Company has no outstanding equity commitments to joint ventures formed prior to September 30, 2009.

The Company intends to have construction financing agreements in place before construction begins on development projects. As of September 30, 2009, the Company had no funding remaining on projects it is developing for itself; remaining costs will be funded from committed construction loans. The Company had a remaining purchase commitment to a third party general contractor totaling \$7.1 million for one project, which will be funded from a committed construction loan. Development projects will be either wholly-owned, joint ventured with physicians, or joint ventured with other third parties. As of September 30, 2009, the Company has one redevelopment project planned for 2010 with an estimated investment cost of \$4.7 million, which will be funded by cash flow from operations.

On September 15, 2009, the Company announced that its Board of Directors had declared a quarterly dividend and distribution of \$0.10 per share and OP unit that was paid in cash on October 21, 2009 to stockholders and holders of OP units of record on September 25, 2009. The dividend and distribution covered the third quarter of 2009 and totaled \$5.0 million. The dividend and distribution were equivalent to an annual rate of \$0.40 per share and OP unit.

Through the fourth quarter of 2008 the Company had funded dividends on its common stock and distributions on OP units through a combination of FFO and borrowings under its Credit Facility. The Company had used borrowings available under its Credit Facility to fund dividend and distribution payments when the timing of the Company's cash flows available from operations was insufficient to meet distribution requirements. However, the dividends and distributions of \$0.225, \$0.10 and \$0.10 per common share/OP unit for the first, second and third quarters of 2009, respectively, were funded entirely out of FFO and the Company expects to curtail borrowings to fund dividends and distributions for the balance of the current calendar year. Subject to IRS guidelines, the Company is permitted to pay a portion of its dividend in the form of common stock in lieu of cash.

Long-Term Liquidity Needs

The Company's principal long-term liquidity needs consist primarily of new property development, property acquisitions, and principal payments under various mortgages and other borrowings 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 and acquisitions through modest cash equity capital contributed by the Company together with traditional secured mortgage financing, as well as through cash equity investments by its tenants or third parties. 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. The Company expects to fund any cash equity capital required for developments, acquisitions, or real estate partnership investments through a combination of cash and cash equivalents on hand and borrowings under its Credit Facility.

Financial markets continued to experience unusual volatility and uncertainty during the third quarter of 2009. Financial systems throughout the world have become illiquid with banks less willing to lend substantial amounts to other banks and borrowers. Consequently, there is greater uncertainty regarding the Company's ability to access the credit market in order to attract financing or capital on reasonable terms or on any terms. The Company may also issue unsecured debt in the future. However, with the current negative general economic conditions and the current volatility of the debt and equity markets, there can be no assurance as to the Company's ability to raise new debt or equity. To the extent that the Company were in future to address long-term liquidity needs through dispositions of its properties, 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 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, to the extent possible and desirable, 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. However, with the current volatility in the debt markets, there can be no assurance as to the Company's ability to raise new debt. 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.

Contractual Obligations

The following table summarizes the Company's contractual obligations as of September 30, 2009, 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 2009 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
|--|----------------------|----------|-----------|----------|----------|------------|-----------|
| Obligation: | | | | | | | |
| Long-term debt principal payments and maturities (1) | \$35,583 | \$33,435 | \$158,077 | \$24,726 | \$15,533 | \$129,448 | \$396,802 |
| Standby letters of credit (2) | - | 8,257 | - | - | - | - | 8,257 |
| Interest payments (3) | 4,664 | 13,902 | 10,109 | 8,198 | 7,198 | 18,477 | 62,548 |
| Purchase commitments (4) | 1,647 | 5,489 | - | - | - | - | 7,136 |
| Ground and air rights leases (5) | 200 | 801 | 801 | 439 | 407 | 11,722 | 14,370 |
| Operating leases (6) | 1,350 | 5,067 | 4,308 | 3,670 | 3,089 | 24,702 | 42,187 |
| Total | \$43,444 | \$66,951 | \$173,295 | \$37,033 | \$26,227 | \$184,349 | \$531,300 |

- (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 0.25% and Prime Rate of 3.25%, which were the rates as of September 30, 2009.
- (4) These purchase commitments are related to the Company's development projects that are currently under construction. The Company has a committed construction loan that will fund the obligation.
- (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 several of our properties' equipment and office space leases. The future minimum lease commitments under these leases are as indicated.

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, 2009, 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 CPI 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

Erdman's business 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

For additional information, see Note 2 to the accompanying consolidated financial statements in this Form 10-Q.

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, 2009, the Company had \$396.8 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of the Company's total consolidated debt, \$43.0 million, or 10.8%, was variable rate debt that is not subject to variable to fixed rate interest rate swap agreements. Of the Company's total indebtedness, \$353.8 million, or 89.2%, 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 5.7% as of September 30, 2009.

If LIBOR were to increase by 100 basis points based on September 30, 2009 one-month LIBOR of 0.25%, the increase in interest expense on the Company's September 30, 2009 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 September 30, 2009, 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 nine months ended September 30, 2009, 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.

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 it, other than routine litigation arising out of the ordinary course of business or which is expected to be covered by insurance and not expected to harm 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, 2008. There have been no significant changes to the Company's risk factors during the three months ended September 30, 2009.

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

None.

Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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.

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 9, 2009

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

Date: November 9, 2009

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