Cogdell Spencer Inc.
Form 10-Q
May 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

o 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 x No o

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 19,488,061 shares of common stock, par value $.01 per share, outstanding as of May 5, 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)

	March 31, 2009	December 31, 2008
Assets		
Real estate properties:		
Land	$ 30,673	$ 30,673
Buildings and improvements	502,690	501,259
Less: Accumulated depreciation	(75,447)	(69,285)
Net operating real estate properties	457,916	462,647
Construction in progress	21,881	15,314
Net real estate properties	479,797	477,961
Cash and cash equivalents	12,400	34,668
Restricted cash	12,686	12,964
Tenant and accounts receivable, net of allowance of $204 in 2009 and $194 in 2008	34,701	43,523
Goodwill	108,683	180,435
Trade names and trademarks	41,240	75,969
Intangible assets, net of accumulated amortization of $41,837 in 2009 and $38,054 in 2008	27,144	45,363
Other assets	31,484	29,207
Total assets	$ 748,135	$ 900,090
Liabilities and equity		
Mortgage notes payable	$ 243,030	$ 240,736
Revolving credit facility	112,000	124,500
Term loan	100,000	100,000
Accounts payable	17,978	22,090
Billings in excess of costs and estimated earnings on uncompleted contracts	19,123	17,025
Deferred income taxes	14,510	34,176
Payable to prior Erdman shareholders	18,002	18,002
Other liabilities	48,481	60,567
Total liabilities	573,124	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, 19,488 and 17,699 shares issued and outstanding in 2009 and 2008, respectively	195	177
Additional paid-in capital	292,971	275,380
Accumulated other comprehensive loss	(5,806)	(5,106)
Accumulated deficit	(152,042)	(77,438)
Total Cogdell Spencer Inc. stockholders' equity	135,318	193,013

Noncontrolling interests:		
Real estate partnerships	4,658	4,657
Operating partnership	35,035	85,324
Total noncontrolling interests	39,693	89,981
Total equity	175,011	282,994
Total liabilities and equity	$ 748,135	$ 900,090

See notes to consolidated financial statements.

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COGDELL SPENCER INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(unaudited)

	For the Three Months Ended March 31, 2009	March 31, 2008
Revenues:		
Rental revenue	$ 19,665	$ 18,691
Design-Build contract revenue and other sales	46,390	23,936
Property management and other fees	850	841
Development management and other income	2,799	19
Total revenues	69,704	43,487
Expenses:		
Property operating and management	7,927	7,199
Design-Build contracts and development management	40,165	21,043
Selling, general, and administrative	6,667	4,306
Depreciation and amortization	10,111	9,025
Impairment charges	120,920	—
Total expenses	185,790	41,573
Income (loss) from operations before other income (expense) and income tax benefit	(116,086)	1,914
Other income (expense):		
Interest and other income	155	255
Interest expense	(6,025)	(5,096)
Equity in earnings of unconsolidated real estate partnerships	6	3
Total other income (expense)	(5,864)	(4,838)
Loss from operations before income tax benefit	(121,950)	(2,924)
Income tax benefit	19,626	358
Net loss	(102,324)	(2,566)
Net loss (income) attributable to the noncontrolling interest in:		
Real estate partnerships	(92)	13
Operating partnership	32,198	752
Net loss attributable to Cogdell Spencer Inc.	$ (70,218)	$ (1,801)
Net loss per share attributable to Cogdell Spencer Inc. - basic and diluted	$ (3.90)	$ (0.13)
Weighted average common shares - basic and diluted	17,995	14,364

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

			Cogdell Spencer Inc. Stockholders					
	Total Equity	Comprehensive Loss	Accumulated Deficit	Accumulated Other Comprehensive Loss	Common Stock	Additional Paid-in Capital	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Real Estate Partnerships
Balance at December 31, 2007	$ 162,256	$ —	$ (50,751)	$ (884)	$ 119	$ 166,901	$ 44,437	$ 2,434
Comprehensive loss:								
Net loss	(2,566)	(2,566)	(1,801)	—	—	—	(752)	(13)
Unrealized loss on interest rate swaps, net of tax	(1,772)	(1,772)	—	(1,145)	—	—	(568)	(59)
Comprehensive loss	(4,338)	$ (4,338)						
Issuance of common stock and operating partnership units, net of costs	107,839		—	—	35	53,698	54,106	—
Investment in real estate costs contributed by partner in a consolidated real estate partnership	135		—	—	—	—	—	135
Redemptions of operating partnership units	(120)				—		(120)	—
Restricted stock and LTIP unit grants	728		—	—	—	94	634	—
Amortization of restricted stock grants	25		—	—	—	16	9	—
Dividends and distributions	(8,584)		(5,397)	—	—	—	(3,133)	(54)

Adjustment to record change of interest in the operating partnership due to the issuance of operating partnership units in excess of book value	14,502		—	—	—	14,502	—	—
Balance at March 31, 2008	$ 272,443		$ (57,949)	$ (2,029)	$ 154	$ 235,211	$ 94,613	$ 2,443

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

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Operating activities:		
Net loss	$ (102,324)	$ (2,566)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	10,111	9,060
Amortization of acquired above market leases and acquired below market leases, net	(131)	(188)
Straight line rental revenue	(118)	(113)
Amortization of deferred finance costs and debt premium	423	135
Deferred income taxes	(19,666)	(562)
Equity-based compensation	842	754
Equity in earnings of unconsolidated real estate partnerships	(6)	(3)
Impairment of intangible assets	120,920	—
Changes in operating assets and liabilities:		
Tenant and accounts receivable and other assets	7,119	1,185
Accounts payable and other liabilities	(17,123)	(12,159)
Billings in excess of costs and estimated earnings on uncompleted contracts	2,098	1,741
Net cash provided by (used in) operating activities	2,145	(2,716)
Investing activities:		
Business acquisitions, net of cash acquired	—	(124,086)
Investment in real estate properties	(7,048)	(23,255)
Purchase of noncontrolling interests in operating partnership	—	(174)
Proceeds from sales-type capital lease	76	77
Purchase of corporate property, plant and equipment	(1,020)	(47)
Distributions received from unconsolidated real estate partnerships	5	5
Decrease (increase) in restricted cash	278	(21,071)
Net cash used in investing activities	(7,709)	(168,551)
Financing activities:		
Proceeds from mortgage notes payable	3,309	—
Repayments of mortgage notes payable	(997)	(717)
Proceeds from revolving credit facility	—	90,500
Repayments to revolving credit facility	(12,500)	(53,700)
Proceeds from term loan	—	100,000
Net proceeds from sale of common stock	—	53,733
Dividends and distributions	(6,022)	(5,737)
Equity contribution from noncontrolling interest in real estate partnerships	—	135
Distributions to noncontrolling interests in real estate partnerships	(271)	(54)
Payment of deferred financing costs	(223)	(2,867)
Net cash provided by (used in) financing activities	(16,704)	181,293
Increase (decrease) in cash and cash equivalents	(22,268)	10,026
Balance at beginning of period	34,668	3,555
Balance at end of period	$ 12,400	$ 13,581
Supplemental disclosure of cash flow information:		

Cash paid for interest, net of capitalized interest	$	5,503	$	4,874
Cash paid for income taxes	$	1	$	—
Supplemental cash flow information - noncash investing and financing activities:				
Operating Partnership Units converted into common stock	$	17,514	$	—
Investment in real estate properties included in accounts payable and other liabilities		898		714
Accrued dividends and distributions		6,088		8,551
Operating Partnership Units issued or to be issued in connection with the acquisition of a business or real estate property		—		81,347

See notes to 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 consolidated financial statements include the Company’s accounts, its wholly-owned subsidiaries, as well as the Operating Partnership and its subsidiaries. The consolidated financial statements also include any partnerships for which the Company or its subsidiaries is the general partner or the managing member and the rights of the limited partners do not overcome the presumption of control by the general partner or managing member. All significant intercompany balances and transactions have been eliminated in consolidation.

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

Liquidity

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 MEA Holdings, Inc., the parent company of Erdman Company, (together, “Erdman”), a subsidiary of the Company. In the first quarter 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. Should Erdman’s clients continue to delay their project starts into the third quarter of 2009, it is probable that the Company would not be able to meet one or more of the financial covenants applicable to Erdman under the $100.0 million senior secured term facility (the “Term Loan”). Due to the uncertainty of Erdman’s future operating results, the Company proposed to the Term Loan lenders, and the Term Loan lenders have now executed a term sheet, which expires June 26, 2009, that allows the Company to repay $50.0 million of the outstanding Term Loan principal balance and upon such repayment to amend the Term Loan, as follows:

- the minimum adjusted consolidated EBITDA covenant will be eliminated,
- the maximum adjusted consolidated senior indebtedness to adjusted consolidated EBITDA will be modified to 3.50 to 1.00 through March 2011 and 3.00 to 1.00 from April 2011 to final maturity,
- the interest rate will increase from LIBOR plus 3.50% to LIBOR plus 4.50%, and
- a payment of a market based modification fee.

Should the Company decide to move forward with the $50.0 million Term Loan repayment, it will seek to fund such repayment through available cash and cash equivalents, sale of assets, future public and/or private offerings of common or preferred equity or debt, reducing costs and expenditures, joint venture financing, or a combination of these sources. There can be no assurances that the Company will be successful in raising any required funding. If the Company is unsuccessful in amending the terms of the Term Loan and violates its financial covenants, this could result in a default under the Term Loan and a default under the secured revolving credit facility ("Credit Facility"). This could cause the Company's lenders to accelerate payment of the loans and may have a material adverse effect on the Company's business, financial condition, and results of operations.

Interim Financial Information

The financial information for the three months ended March 31, 2009 and 2008 is unaudited, but includes all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for such periods. Operating results for the three months ended March 31, 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.

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

SFAS No. 157, “Fair Value Measurements” (“SFAS 157”) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company implemented the requirement of SFAS 157 for its financial assets and liabilities on January 1, 2008. In accordance with FASB Staff Position No. FAS 157-2, “Effective Date of FASB Statement No 157,” the Company implemented SFAS 157 for all nonfinancial assets and nonfinancial liabilities on January 1, 2009. The adoption of SFAS No. 157 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.

SFAS 157 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Fair values determined by Level 1 inputs utilize observable inputs such as quoted prices in active markets for identical assets or liabilities we have the ability to access. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In instances in which the inputs used to measure fair value may fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input significant to the fair value measurement in its entirety. The Company’s assessment of the 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.

See Note 6 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.

Per Share Data

Basic and diluted earnings per share are computed based upon the weighted average number of shares outstanding during the respective period. There were 4,050 and 10,324 shares of unvested restricted stock outstanding at March 31, 2009 and 2008, respectively, which were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive.

Concentrations and Credit Risk

The Company maintains its cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation ("FDIC") up to specific limits. Balances on deposit in excess of FDIC limits are uninsured. At March 31, 2009, the Company had bank cash balances of $15.9 million in excess of FDIC insured limits.

One customer accounted for more than 10% of tenant and accounts receivable at March 31, 2009 and 2008. One customer or tenant accounted for more than 10% of revenue for the three months ended March 31, 2009, and no customers or tenants accounted for more than 10% of revenue for the three months ended March 31, 2008.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 141 (Revised), "Business Combinations — a replacement of FASB Statement No. 141" ("SFAS 141R), 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. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement is effective prospectively, except for certain retrospective adjustments to deferred tax balances, for fiscal years beginning after December 15, 2008. The Company implemented SFAS 141R effective January 1, 2009. The adoption of SFAS 141R 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 SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51" ("SFAS 160"). SFAS 160 changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will 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 will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be 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. SFAS 160 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 SFAS 160 effective January 1, 2009 and has applied the presentation and disclosure requirements retrospectively. The adoption of SFAS 160 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. The adoption of SFAS 160 has resulted in a $4.1 million reclassification of Accumulated Other Comprehensive Loss from Cogdell Spencer Inc. stockholder equity to noncontrolling interests as of December 31, 2008. Also, net loss for the three months ended March 31, 2008 has increased by $0.8 million for the reclassification of loss allocated to noncontrolling interests; however, net loss attributable to Cogdell Spencer Inc., loss per common share – basic and diluted were not affected by this reclassification.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 is intended to provide users of financial statements with an enhanced understanding of derivative instruments and hedging activities by having the Company disclose: (1) how and why the Company uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect the Company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of SFAS 161 had no impact on the Company's balance sheet, statement of operations, or changes in equity on January 1, 2009.

3. Investments in Real Estate Partnerships

As of March 31, 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 as of March 31, 2009, and 20.0% owned by the Company;

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

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

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

The following is a description of the consolidated entities:

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

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

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

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

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

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

	March 31, 2009	December 31, 2008
Financial position:		
Total assets	$ 56,110	$ 56,262
Total liabilities	49,631	49,831
Members' equity	6,479	6,431

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
Results of operations:		
Total revenues	$ 3,068	$ 3,068
Operating and general and administrative expenses	1,376	1,417
Net income	235	225

4. Business Segments

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

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

The following tables represent the segment information for the three months ended March 31, 2009 and 2008 (in thousands):

Three months ended March 31, 2009:	Property Operations	Design-Build and Development	Unallocated and Other	Total
Revenues:				
Rental revenue	$ 19,665	$ —	$ —	$ 19,665
Design-Build contract revenue and other sales	—	46,390	—	46,390
Property management and other fees	850	—	—	850
Development management and other income	—	2,799	—	2,799
Total revenues	20,515	49,189	—	69,704
Certain operating expenses:				
Property operating and management	7,927	—	—	7,927
Design-Build contracts and development management	—	40,165	—	40,165
Selling, general, and administrative	—	4,514	—	4,514
Impairment charges	—	120,920	—	120,920
Total certain operating expenses	7,927	165,599	—	173,526
	12,588	(116,410)	—	(103,822)
Interest and other income	141	1	13	155
Corporate general and administrative expenses	—	—	(2,153)	(2,153)
Interest expense	—	—	(6,025)	(6,025)
Benefit from income taxes applicable to funds from operations modified	—	—	18,642	18,642
	—	(193)	(54)	(247)

Non-real estate related depreciation and amortization				
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	9	—	—	9
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(245)	—	—	(245)
Funds from operations modified (FFOM)	12,493	(116,602)	10,423	(93,686)
Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)	(2,482)	984	(1,540)
Funds from operations (FFO)	12,451	(119,084)	11,407	(95,226)
Real estate related depreciation and amortization	(7,343)	—	—	(7,343)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	245	—	—	245
Net income (loss)	5,353	(119,084)	11,407	(102,324)
Net loss (income) attributable to the noncontrolling interest in:				
Real estate partnerships	(92)	—	—	(92)
Operating partnership	—	—	32,198	32,198
Net income (loss) attributable to Cogdell Spencer Inc.	$ 5,261	$ (119,084)	$ 43,605	$ (70,218)
Total assets	$ 653,839	$ 93,351	$ 945	$ 748,135

Three months ended March 31, 2008:	Property Operations	Design-Build and Development	Unallocated and Other	Total
Revenues:				
Rental revenue	$ 18,691	$ —	$ —	$ 18,691
Design-Build contract revenue and other sales	—	23,936	—	23,936
Property management and other fees	841	—	—	841
Development management and other income	—	19	—	19
Total revenues	19,532	23,955	—	43,487
Certain operating expenses:				
Property operating and management	7,199	—	—	7,199
Desin-Build conracts and development management	—	21,043	—	21,043
Selling, general, and administrative	—	1,881	—	1,881
Total certain operating expenses	7,199	22,924	—	30,123
	12,333	1,031	—	13,364
Interest and other income	161	40	54	255
Corporate general and administrative expenses	—	—	(2,425)	(2,425)
Interest expense	—	—	(5,096)	(5,096)
Provision for income taxes applicable to funds from operations modified	—	—	(64)	(64)
Non-real estate related depreciation and amortization	—	(115)	(52)	(167)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	6	—	—	6
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(78)	—	—	(78)
Funds from operations modified (FFOM)	12,422	956	(7,583)	5,795
Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)	(1,028)	422	(648)
Funds from operations (FFO)	12,380	(72)	(7,161)	5,147
Real estate related depreciation and amortization	(7,791)	—	—	(7,791)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	78	—	—	78
Net income (loss)	4,667	(72)	(7,161)	(2,566)
Net loss (income) attributable to the noncontrolling interest in:				
Real estate partnerships	13	—	—	13
Operating partnership	—	—	752	752
	$ 4,680	$ (72)	$ (6,409)	$ (1,801)

Net income (loss) attributable to Cogdell Spencer Inc.				
Total assets	$ 561,503	$ 350,926	$ 799	$ 913,228

5. Contracts

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

	March 31, 2009