Cogdell Spencer Inc.
Form 10-Q
May 10, 2011

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

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

For the quarterly period ended March 31, 2011

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

(704) 940-2900

(Registrant s telephone number, including area code)

N/A

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 51,047,077 shares of common stock, par value $.01 per share, outstanding as of May 4, 2011.

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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, 2011	December 31, 2010
Assets		
Real estate properties:		
Land	$ 37,269	$ 37,269
Buildings and improvements	604,443	597,022
Less: Accumulated depreciation	(125,610)	(119,141)
Net operating real estate properties	516,102	515,150
Construction in progress	29,985	22,243
Net real estate properties	546,087	537,393
Cash and cash equivalents	17,235	12,203
Restricted cash	6,784	6,794
Tenant and accounts receivable, net of allowance of $3,071 in 2011 and $3,010 in 2010	10,247	11,383
Goodwill	22,882	22,882
Intangible assets, net of accumulated amortization of $50,329 in 2011 and $49,287 in 2010	18,418	18,601
Other assets	28,162	23,684
Total assets	$ 649,815	$ 632,940
Liabilities and equity		
Mortgage notes payable	$ 319,419	$ 317,303
Revolving credit facility	55,000	45,000
Accounts payable	11,628	11,368
Billings in excess of costs and estimated earnings on uncompleted contracts	2,314	1,930
Other liabilities	43,558	39,819
Total liabilities	431,919	415,420
Commitments and contingencies		
Equity:		
Cogdell Spencer Inc. stockholders equity:		
Preferred stock, $0.01 par value; 50,000 shares authorized: 8.5000% Series A Cumulative Redeemable Perpetual Preferred Shares (liquidation preference $25.00 per share), 2,940 and 2,600 shares issued and outstanding in 2011 and 2010, respectively	73,500	65,000
Common stock, $0.01 par value; 200,000 shares authorized, 51,042 and 50,870 shares issued and outstanding in 2011 and 2010, respectively	510	509
Additional paid-in capital	418,374	417,960

Accumulated other comprehensive loss	(2,712)	(3,339)
Accumulated deficit	(295,981)	(287,798)
Total Cogdell Spencer Inc. stockholders equity	193,691	192,332
Noncontrolling interests:		
Real estate partnerships	6,772	6,452
Operating partnership	17,433	18,736
Total noncontrolling interests	24,205	25,188
Total equity	217,896	217,520
Total liabilities and equity	$ 649,815	$ 632,940

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Revenues:		
Rental revenue	$ 23,054	$ 21,245
Design-Build contract revenue and other sales	15,241	35,436
Property management and other fees	775	818
Development management and other income	74	103
Total revenues	39,144	57,602
Expenses:		
Property operating and management	9,287	8,198
Design-Build contracts and development management	13,013	24,619
Selling, general, and administrative	6,208	5,820
Depreciation and amortization	7,830	8,085
Total expenses	36,338	46,722
Income from continuing operations before other income (expense) and income tax expense	2,806	10,880
Other income (expense):		
Interest and other income	178	160
Interest expense	(4,850)	(5,089)
Interest rate derivative expense		(15)
Equity in earnings of unconsolidated real estate partnerships	8	3
Total other income (expense)	(4,664)	(4,941)
Income (loss) from continuing operations before income tax expense	(1,858)	5,939
Income tax expense	(18)	(1,726)
Income (loss) from continuing operations	(1,876)	4,213
Loss from discontinued operations		(18)
Net income (loss)	(1,876)	4,195
Net income attributable to the noncontrolling interests in real estate partnerships	(200)	(311)
Net (income) loss attributable to the noncontrolling interests in operating partnership	508	(598)
Dividends on preferred stock	(1,562)	
Net income (loss) attributable to Cogdell Spencer Inc. common shareholders	$ (3,130)	$ 3,286

Per share data basic and diluted:				
Income (loss) from continuing operations attributable to Cogdell Spencer Inc. common shareholders	$	(0.06)	$	0.08
Loss from discontinued operations attributable to Cogdell Spencer Inc. common shareholders				
Net income (loss) per common share available to Cogdell Spencer Inc. common shareholders	$	(0.06)	$	0.08
Weighted average common shares basic and diluted		51,009		42,768
Net income (loss) attributable to Cogdell Spencer Inc. common shareholders:				
Continuing operations, net of tax	$	(3,130)	$	3,301
Discontinued operations				(15)
Net income (loss) attributable to Cogdell Spencer Inc. common shareholders	$	(3,130)	$	3,286

See notes to condensed consolidated financial statements.

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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	Series A Cumulative Redeemable Perpetual Preferred Shares	Common Stock	Additional Paid-in Capital	Noncontrolling Interests in Operating Partnership	Noncontrolling Interests in Real Estate Partnerships
Balance at December 31, 2010	$ 217,520		$ (287,798)	$ (3,339)	$ 65,000	$ 509	$ 417,960	$ 18,736	$ 6,452
Comprehensive loss:									
Net income (loss)	(1,876)	$ (1,876)	(1,568)					(508)	200
Unrealized gain on derivative financial instruments	959	959		653				128	178
Comprehensive loss	(917)	$ (917)							
Issuance of preferred stock, net of costs	8,204				8,500		(296)		
Conversion of operating partnership units to common stock				(26)		1	409	(384)	
Restricted stock and LTIP unit grants	427						228	199	
Amortization of restricted stock grants	73						73		
Dividends on common stock	(5,053)		(5,053)						
Dividends on preferred stock	(1,562)		(1,562)						
Distributions to noncontrolling	(921)							(738)	(183)

interests									
Contributed equity in real estate partnership	125								125
Balance at March 31, 2011	$ 217,896		$ (295,981)	$ (2,712)	$ 73,500	$ 510	$ 418,374	$ 17,433	$ 6,772

See notes to condensed consolidated financial statements.

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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, 2009	$ 247,780		$ (164,321)	$ (1,861)	$ 427	$ 370,593	$ 37,722	$ 5,220
Comprehensive income:								
Net income	4,195	$ 4,195	3,286				598	311
Unrealized loss on derivative financial instruments	(1,464)	(1,464)		(1,002)			(184)	(278)
Comprehensive income:	2,731	$ 2,731						
Conversion of operating partnership units to common stock				(5)		158	(153)	
Restricted stock and LTIP unit grants	333				1	200	132	
Dividends on common stock	(4,279)		(4,279)					
Distributions to noncontrolling interests	(1,581)						(765)	(816)
Balance at March 31, 2010	$ 244,984		$ (165,314)	$ (2,868)	$ 428	$ 370,951	$ 37,350	$ 4,437

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Operating activities:		
Net income (loss)	$ (1,876)	$ 4,195
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	7,830	8,083
Amortization of acquired above market leases and acquired below market leases, net (including amounts in discontinued operations)	(106)	(110)
Straight-line rental revenue	(466)	(221)
Amortization of deferred finance costs and debt premium	351	392
Provision for bad debts	62	(116)
Deferred income taxes		(311)
Deferred tax expense on intersegment profits	16	(165)
Equity-based compensation	500	260
Equity in earnings of unconsolidated real estate partnerships	(8)	(3)
Change in fair value of interest rate swap agreements		(274)
Interest rate derivative expense		15
Changes in operating assets and liabilities:		
Tenant and accounts receivable and other assets	(390)	1,695
Accounts payable and other liabilities	4,371	(2,836)
Billings in excess of costs and estimated earnings on uncompleted contracts	384	(7,836)
Net cash provided by operating activities	10,668	2,768
Investing activities:		
Investment in real estate properties	(15,618)	(9,393)
Proceeds from sales-type capital lease	76	76
Purchase of corporate property, plant and equipment	(302)	(126)
Distributions received from unconsolidated real estate partnerships	5	4
Decrease (increase) in restricted cash	10	(155)
Net cash used in investing activities	(15,829)	(9,594)
Financing activities:		
Proceeds from mortgage notes payable	3,381	6,424
Repayments of mortgage notes payable	(1,259)	(1,031)
Proceeds from revolving credit facility	10,000	
Net proceeds from sale of preferred stock	8,204	
Redemption of non-controlling interests in operating partnership		
Dividends on common stock	(5,046)	(4,279)
Dividends on preferred stock	(1,232)	
Distributions to noncontrolling interests in Operating Partnership	(675)	(765)
Distributions to noncontrolling interests in real estate partnerships	(183)	(813)
Equity contributions by partners in consolidated real estate partnerships	125	

Payment of financing costs		(3,122)		(80)
Net cash provided by (used in) financing activities		10,193		(544)
Increase (decrease) in cash and cash equivalents		5,032		(7,370)
Balance at beginning of period		12,203		25,914
Balance at end of period	$	17,235	$	18,544
Supplemental disclosure of cash flow information:				
Cash paid for interest, net of capitalized interest	$	4,622	$	5,289
Cash paid for income taxes	$		$	73
Non-cash investing and financing activities:				
Investment in real estate properties included in accounts payable and other liabilities	$	699	$	1,916
Accrued dividends and distributions		6,384		5,057
Operating Partnership Units converted into common stock		409		158

See notes to condensed consolidated financial statements.

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

1. Business

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

We have two segments: (1) Property Operations and (2) Design-Build and Development. Property Operations owns and manages our properties and manages properties for third parties. Design-Build and Development provides strategic planning, design, construction, development, and project management services for properties owned by the Company and for third parties.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Interim Financial Statements

The condensed consolidated financial statements for the three months ended March 31, 2011 and 2010 are unaudited, but include all adjustments consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of our financial position, results of operations, changes in equity and cash flows for such periods. Operating results for the three months ended March 31, 2011 and 2010 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal years of 2011 or 2010 or any other future period. These condensed consolidated financial statements do not include all disclosures required by GAAP for annual consolidated financial statements. Our audited consolidated financial statements are contained in our Annual Report on Form 10-K for the year ended December 31, 2010 and should be read in conjunction with these interim financial statements.

Use of Estimates in Financial Statements

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

Concentrations and Credit Risk

We maintain our cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specific limits. Balances on deposit in excess of FDIC limits are uninsured. At March 31, 2011, we had bank cash balances of $9.7 million in excess of FDIC insured limits.

The following table shows our concentration of tenant and accounts receivable and tenant and customer revenues as of and for the three months ended:

	March 31, 2011	March 31, 2010
Customer balances greater than 10% of tenants and accounts receivable	Two	Two
Customer revenues greater than 10% of total revenue	One	Two

Fair Value of Financial Instruments

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

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

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

We do not hold or issue financial instruments for trading purposes. We consider the carrying amounts of cash and cash equivalents, restricted cash, tenant and accounts receivable, accounts payable, and other liabilities to approximate fair value due to the short maturity of these instruments. We have estimated the fair value of debt utilizing present value techniques taking into consideration current market conditions. At March 31, 2011, the carrying amount and estimated fair value of debt was $374.4 million and $378.0 million, respectively. At December 31, 2010, the carrying amount and estimated fair value of debt was $362.3 million and $366.3 million, respectively.

See Note 9 regarding the fair value of our interest rate swap agreements.

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3. Investments in Real Estate Partnerships

We have ownership interests in limited liability companies and limited partnerships. The following is a description of those entities as of March 31, 2011:

Real Estate Entity	Entity Holdings	Year Founded	Our Ownership
Consolidated			
Anchor Cogdell, LLC	one property	2011	95.0%
Bonney Lake MOB Investors, LLC	one property (under construction)	2009	61.7%
Genesis Property Holdings, LLC	one property	2007	40.0%
Cogdell Health Campus MOB, LP	one property	2006	80.9%
Mebane Medical Investors, LLC	one property	2006	35.1%
Rocky Mount MOB, LLC	one property	2002	34.5%
Unconsolidated			
Cogdell Spencer Medical Partners LLC	no assets or liabilities	2008	20.0%
BSB Health/MOB Limited Partnership No. 2	nine properties	2002	2.0%
Shannon Health/MOB Limited Partnership No. 1	ten properties	2001	2.0%
McLeod Medical Partners, LLC	three properties	1982	1.1%

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

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

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

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

	March 31, 2011	December 31, 2010
Financial position:		
Total assets	$ 53,613	$ 53,755

Total liabilities	47,109	47,272
Member s equity	6,504	6,483

	For the Three Months Ended	
	March 31, 2011	**March 31, 2010**
Results of operations:		
Total revenues	$ 2,771	$ 3,129
Operating and general and administrative expenses	1,273	1,462
Net income	334	272

4. Acquisitions

In January 2011, we acquired St. Elizabeth Florence Medical Office Building, located in Florence, Kentucky, for $6.2 million. The building is located on campus at St. Elizabeth Florence Hospital and is connected to the hospital by a covered walkway. As of March 31, 2011, the building is 76.1% leased. We own 95% of the joint venture that acquired the building. The following table is a preliminary allocation of the purchase price (in thousands):

Building and improvements	$	5,306
Acquired in place lease value and deferred leasing costs		807
Acquired above market leases		53
Acquired below market leases		(16)
Total purchase price allocated	$	6,150

5. Business Segments

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

We evaluate the operating performance of our operating segments based on funds from operations (FFO) and funds from operations modified (FFOM). FFO, as defined by the National Association of Real Estate Investment Trusts (NAREIT), represents net income (computed in accordance with GAAP), excluding gains from sales of property, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. We adjust the NAREIT definition to add back noncontrolling interests in real estate partnerships before real estate related depreciation and amortization and dividends on preferred stock. FFOM adds back to FFO non-cash amortization of non-real estate related intangible assets associated with purchase accounting. We consider FFO and FFOM important supplemental measures of our operational performance. We believe FFO is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. We believe that FFOM assists securities analysts, investors and other interested parties in evaluating current period results to results prior to our 2008 acquisition of our Design-Build segment. FFO and FFOM are intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assume that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because 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. Our methodology may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO and FFOM do not represent amounts available for management s discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties.

The following tables represent the segment information for the three months ended March 31, 2011 and 2010:

Quarter ended March 31, 2011	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	$ 23,054	$	$	$	$ 23,054
Design-Build contract revenue and other sales		23,784	(8,543)		15,241
Property management and other fees	775				775
Development management and other income		879	(805)		74
Total revenues	23,829	24,663	(9,348)		39,144
Certain operating expenses:					
Property operating and management	9,287				9,287
Design-Build contracts and development management		21,488	(8,475)		13,013
Selling, general, and administrative		3,776			3,776
Total certain operating expenses	9,287	25,264	(8,475)		26,076
	14,542	(601)	(873)		13,068
Interest and other income	164	8		6	178
Corporate general and administrative expenses				(2,432)	(2,432)
Interest expense				(4,850)	(4,850)
Income tax expense applicable to funds from operations modified				(18)	(18)
Non-real estate related depreciation and amortization		(278)		(44)	(322)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	10				10
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(498)				(498)
Dividends on preferred stock				(1,562)	(1,562)
Funds from operations modified (FFOM)	14,218	(871)	(873)	(8,900)	3,574

Amortization of intangibles related to purchase accounting	(42)	(189)			(231)
Funds from operations (FFO)	14,176	(1,060)	(873)	(8,900)	3,343
Real estate related depreciation and amortization	(7,279)				(7,279)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	498				498
Dividends on preferred stock				1,562	1,562
Net income (loss)	$ 7,395	$ (1,060)	$ (873)	$ (7,338)	$ (1,876)
Total assets	$ 595,032	$ 54,520	$	$ 263	$ 649,815

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Quarter ended March 31, 2010	Property Operations	Design-Build and Development	Intersegment Eliminations	Unallocated and Other	Total
Revenues:					
Rental revenue	$ 21,268	$	$ (23)	$	$ 21,245
Design-Build contract revenue and other sales		39,200	(3,764)		35,436
Property management and other fees	818				818
Development management and other income		886	(783)		103
Total revenues	22,086	40,086	(4,570)		57,602
Certain operating expenses:					
Property operating and management	8,198				8,198
Design-Build contracts and development management		28,648	(4,029)		24,619
Selling, general, and administrative		3,889	(23)		3,866
Total certain operating expenses	8,198	32,537	(4,052)		36,683
	13,888	7,549	(518)		20,919
Interest and other income	146	3		11	160
Corporate general and administrative expenses				(1,954)	(1,954)
Interest expense				(5,089)	(5,089)
Interest rate derivative expense				(15)	(15)
Income taxes expense applicable to funds from operations modified				(1,965)	(1,965)
Non-real estate related depreciation and amortization		(219)		(60)	(279)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	6				6
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(616)				(616)
Discontinued operations	16			(34)	(18)
Funds from operations modified (FFOM)	13,440	7,333	(518)	(9,106)	11,149

Amortization of intangibles related to purchase accounting, net of income tax benefit	(42)	(570)		239	(373)
Funds from operations (FFO)	13,398	6,763	(518)	(8,867)	10,776
Real estate related depreciation and amortization	(7,197)				(7,197)
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	616				616
Net income (loss)	$ 6,817	$ 6,763	$ (518)	$ (8,867)	$ 4,195
Total assets	$ 554,138	$ 187,710	$	$ 395	$ 742,243

6. Contracts

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

	March 31, 2011	December 31, 2010
Costs and estimated earnings on uncompleted contracts	$ 61,122	$ 48,394
Billings to date	(61,483)	(49,336)
Net billings in excess of costs and estimated earnings	$ (361)	$ (942)

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

	March 31, 2011	December 31, 2010
Costs and estimated earnings in excess of billings [1]	$ 1,953	$ 988
Billings in excess of costs and estimated earnings	(2,314)	(1,930)
Net billings in excess of costs and estimated earnings	$ (361)	$ (942)

[1] Included in Other assets in the consolidated balance sheet

At March 31, 2011, we had retainage receivables of $3.8 million, which are included in Tenant and accounts receivable in the consolidated balance sheets.

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7. Goodwill and Intangible Assets

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

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

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

At March 31, 2011 and 2010, we determined no interim review was necessary.

Our goodwill and trade names and trademarks, which are associated with the Design-Build and Development business segment, are not amortized. The following table shows the change in carrying value related to goodwill and trade names and trademarks as of March 31, 2011 (in thousands):

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

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

	As of March 31, 2011		
	Gross Amount	Accumulated Amortization	Net Carrying Value
In place lease value and deferred leasing costs	$ 44,091	$ (31,461)	$ 12,630
Ground leases	3,776	(687)	3,089
Property management contracts	2,097	(806)	1,291
Design-build customer relationships	1,789	(825)	964
Above market tenant leases	1,612	(1,168)	444
Design-build signed contracts	13,253	(13,253)	
Design-build proposals	2,129	(2,129)	
Total amortizing intangible assets	$ 68,747	$ (50,329)	$ 18,418

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Amortization expense related to intangibles for the three months ended March 31, 2011 and 2010 was $1.0 and $1.5 million, respectively. We expect to recognize amortization expense from the amortizing intangible assets as follows (in thousands):

For the year ending:	**Future Amortization Expense**
Remainder of 2011	$ 2,680
2012	2,732
2013	1,805
2014	1,660
2015	1,190
Thereafter	8,351
	$ 18,418

8. Mortgage Notes Payable and Borrowing Agreements

On March 1, 2011, we amended and restated the secured revolving credit facility (Credit Facility). This $200.0 million Credit Facility is held with a syndicate of financial institutions. The Credit Facility is available to 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 us to borrow, subject to borrowing base availability, up to $200.0 million of revolving loans, with sub-limits of $25.0 million for swingline loans and $25.0 million for letters of credit. As of March 31, 2011, the maximum available borrowing under the Credit Facility was $122.8 million, with $55.0 million drawn, based on 70% of the value of the aggregate property pledged as collateral. We have the ability to increase the availability by pledging additional unencumbered property to the Credit Facility.

The Credit Facility also allows for up to $150.0 million of increased availability (to a total aggregate available amount of $350.0 million), at our request but subject to each lender s option to increase its commitment. The interest rate on loans under the Credit Facility equals, at our election, either (1) LIBOR (0.24% as of March 31, 2011) plus a margin of between 275 to 350 basis points based on our total leverage ratio (3.00% as of March 31, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate (3.25% as of March 31, 2011) plus a margin of between 175 to 250 basis points based on our total leverage ratio (2.00% as of March 31, 2011).

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (20%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date at March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00). Additionally, provisions in the Credit Facility indirectly prohibit us from redeeming or otherwise repurchasing any shares of our stock, including our preferred stock.

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

In March 2011, we began construction on a new project located in Duluth, Minnesota. We obtained construction financing with a maximum principal balance of $19.0 million and an interest rate of LIBOR plus 3.25%, with a

minimum interest rate of 5.5%. Monthly payments are interest only during the construction period and after construction completion, the monthly payments will be principal and interest based on a 25.0 year amortization. The mortgage note payable matures in September 2016.

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Our mortgages are collateralized by property; principal and interest payments are generally made monthly. Scheduled maturities of mortgages and notes payable under the Credit Facility as of March 31, 2011, are as follows (in thousands):

For the year ending:	Total
Remainder of 2011	$ 76,172
2012	20,025
2013	15,872
2014	119,127
2015	12,490
Thereafter	130,675
	$ 374,361

As of March 31, 2011, we had $76.2 million of principal and maturity payments related to mortgage notes payable due in 2011. The $76.2 million is comprised of $3.4 million for principal amortization and $72.8 million for maturities. Of the $72.8 million in maturing mortgage notes payable, $12.3 million relates to Alamance Regional Mebane Outpatient Center and can be extended for one year to May 2012. We believe that we will be able to refinance or extend the remaining $60.5 million of 2011 balloon maturities as a result of the current loan to value ratios at individual properties and preliminary discussions with lenders. The weighted average interest rate on the debt that matures in 2011 is approximately 3.0%. We expect upon refinancing that the weighted average interest rate on this debt will be greater than 3.0%.

At March 31, 2011, we believe that we were in compliance with all of our loan covenants.

9. Derivative Financial Instruments

Interest rate swap and interest rate cap agreements are utilized to reduce exposure to variable interest rates associated with certain mortgage notes payable. These agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal amount (the notional amount) or a cap on the referenced rate. The interest rate swap and interest rate cap agreements are reported at fair value in the consolidated balance sheet within Other assets or Other liabilities and changes in the fair value, net of tax where applicable, are reported in accumulated other comprehensive income (loss) (AOCI) exclusive of ineffectiveness amounts. The following table summarizes the terms of our interest rate swap agreements and their fair values at March 31, 2011 and December 31, 2010 (dollars in thousands):

	As of March 31, 2011					March 31, 2011		December 31, 2010	
Entity/Property	Notional Amount	Receive Rate	Pay Rate	Effective Date	Expiration Date	Asset	Liability	Asset	Liability
St. Francis Community MOB LLC	$ 6,642	1 Month LIBOR	3.32%	10/15/2008	6/15/2011	$	$ 52	$	$ 102
St. Francis Medical Plaza (Greenville)	7,135	1 Month LIBOR	3.32%	10/15/2008	6/15/2011		56		109
Beaufort Medical Plaza	4,605	1 Month LIBOR	3.80%	8/18/2008	8/18/2011		69		107
East Jefferson Medical Plaza	11,600	1 Month LIBOR	1.80%	1/15/2009	12/23/2011		135		173
	3,208		1.78%	1/15/2009	1/31/2012		40		50

River Hills Medical Plaza		1 Month LIBOR					
HealthPartners Medical Office Building	11,742	1 Month LIBOR	3.55%	6/1/2010	11/1/2014	770	899
Lancaster ASC MOB	10,330	1 Month LIBOR	4.03%	3/14/2008	3/2/2015	825	938
Bonney Lake MOB Investors LLC	11,505	1 Month LIBOR	3.19%	10/1/2011	10/1/2016	243	
Woodlands Center for Specialized Medicine	16,533	1 Month LIBOR	4.71%	4/1/2010	10/1/2018	1,939	2,200
Medical Center Physicians Tower	14,644	1 Month LIBOR	3.69%	9/1/2010	3/1/2019	644	921
University Physicians Grants Ferry	10,361	1 Month LIBOR	3.70%	10/1/2010	4/1/2019	457	654
Cogdell Spencer LP[1]	n/a	n/a	n/a	n/a	n/a		162
						$ $ 5,230	$ $ 6,315

(1) Interest rate swap agreement expired March 10, 2011.

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

	As of March 31, 2011					March 31, 2011		December 31, 2010	
Entity/Property	Notional Amount	Reference Rate	Cap Rate	Effective Date	Expiration Date	Asset	Liability	Asset	Liability
Rocky Mount Medical Park LP	$ 10,239	1 Month LIBOR	3.00%	2/1/2011	10/22/2014	$ 110			

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

	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
For the three months ended:					
March 31, 2011	$ 959	Interest Expense	$ (959)	Interest rate derivative expense	$
March 31, 2010	$ (1,464)	Interest Expense	$ (254)	Interest rate derivative expense	$ (15)

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

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

	Fair Value Measurements as of March 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets-				
Interest rate cap agreement	$ 110	$	$ 110	$
Liabilities-				
Interest rate swap agreements	$ (5,230)	$	$ (5,230)	$

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

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

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10. Equity

Preferred Shares

There are 2.9 million shares of our 8.500% Series A cumulative redeemable perpetual preferred stock (Series A preferred shares) outstanding at March 31, 2011. The Series A preferred shares have no stated maturity and are not subject to any sinking fund or mandatory redemption. Upon certain circumstances upon a change of control, the Series A preferred shares are convertible to common shares. Holders of Series A preferred shares generally have no voting rights, except under limited conditions, and holders are entitled to receive cumulative preferential dividends. Dividends are payable quarterly in arrears on the first day of March, June, September, and December.

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

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Preferred stock shares at beginning of period	2,600	
Issuance of preferred stock	340	
Preferred stock shares at end of period	2,940	

Common Shares and Units

An Operating Partnership Unit (OP Unit) and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss and distributions of the Operating Partnership. An OP Unit may be tendered for redemption for cash, however, we have sole discretion and the authorized common stock to exchange for shares of common stock on a one-for-one basis.

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

As of March 31, 2011, there were 58.5 million OP Units outstanding, of which 51.0 million, or 87.3%, were owned by us and 7.4 million, or 12.7%, were owned by other partners, including certain directors, officers and other members of executive management. As of March 31, 2011, the fair market value of the OP Units not owned by us was $44.1 million, based on a market value of $5.94 per unit, which was the closing stock price of our common shares on March 31, 2011.

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

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Shares of common stock at beginning of period	50,870	42,729
Conversion of OP Units to common stock	134	29
Restricted stock grants	38	35
Shares of common stock at end of period	51,042	42,793

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

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Net income (loss) attributable to Cogdell Spencer Inc. common shareholders	$ (3,130)	$ 3,286
Increase in Cogdell Spencer Inc. additional paid-in capital for the conversion of OP units into common stock	409	158
Change from net income (loss) attributable to Cogdell Spencer Inc. common shareholders and transfers from noncontrolling interests	$ (2,721)	$ 3,444

Noncontrolling Interests in Real Estate Partnerships

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

Dividends and Distributions

On March 11, 2011, we announced that our Board of Directors had declared a quarterly dividend of $0.10 per share and OP Unit that was paid in cash on April 20, 2011 to holders of record on March 25, 2011. The $5.0 million dividend covered our first quarter of 2011. Additionally, distributions declared to OP Unit holders, excluding inter-company distributions, totaled $1.6 million for the first quarter of 2011.

On May 4, 2011, we announced that our Board of Directors declared a quarterly dividend of $0.53125 per share on our Series A preferred shares for the period March 1, 2011 to May 31, 2011. The dividend will be paid on June 1, 2011, to holders of record on May 18, 2011.

11. Incentive and Share-Based Compensation

Our 2005 and 2010 Long-Term Stock Incentive Plans (Incentive Plans) 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, LTIP units, cash performance bonuses and other incentive awards. Only employees are eligible to receive incentive stock options under the incentive award plan. We have reserved a total of 2,512,000 shares of common stock for issuance pursuant to the incentive award plan, subject to certain adjustments set forth in the plan. Each LTIP unit issued under the incentive award plan will count as one share of stock for purposes of calculating the limit on shares that may be issued under the plan. A total of 926,861 shares of common stock are available for future grant under the Incentive Plans at March 31, 2011.

We recognized total compensation expenses of $0.2 million for the three months ended March 31, 2011 and 2010.

In September 2010, we issued 447,094 shares of restricted common stock to our President and Chief Executive Officer, Mr. Raymond Braun, as a performance award grant. The restricted common stock vests, subject to the satisfaction of pre-established performance measures, 100% on December 31, 2013, or earlier if Mr. Braun is terminated without cause. The grant date for accounting purposes and the grant date fair value will be established in the future when the Compensation Committee and Mr. Braun mutually agree upon, and subject to the approval by our Board of Directors, the performance criteria. The grant date fair value will be determined at that time and the related compensation expense will be amortized over the vesting period. The Compensation Committee and Mr. Braun expect to establish the performance criteria on or before June 1, 2011.

The following is a summary of restricted stock and LTIP unit activity for the three months ended March 31, 2011 (in thousands, except weighted average grant price):

	Restricted Stock	LTIP Units	Weighted Average Grant Price
Unvested balance at January 1, 2011	75	65	$ 10.69
Granted	17	54	6.01
Vested	(17)	(38)	6.07
	75	81	$ 10.17
Approved for grant	447		(a)
Unvested balance at March 31, 2011	522	81	n/a

(a) Grant date fair value will be determined when the related performance criteria have been mutually agreed upon by the Compensation Committee and Mr. Braun and approved by our Board of Directors, which is expected on or before June 1, 2011.

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

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

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

our business strategy;

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

our access to capital;

our ability to obtain future financing arrangements, including refinancing existing arrangements;

estimates relating to our future distributions;

our understanding of our competition;

our ability to renew our ground leases;

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

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

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

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

- our tenants ability to make rent payments;
- defaults by tenants and customers;
- access to financing by customers;
- delays in project starts and cancellations by customers;
- our ability to convert design-build project opportunities into new engagements for us;
- market trends; and
- projected capital expenditures.

Forward-looking statements are based on estimates as of the date of this report. We disclaim 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 our business and financial performance. Moreover, we operate 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 our 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

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

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

In January 2011, we acquired St. Elizabeth Florence Medical Office Building, located in Florence, Kentucky, for $6.2 million. The building is located on campus at St. Elizabeth Florence Hospital and is connected to the hospital by a covered walkway. As of March 31, 2011, we had three investment projects under construction totaling approximately 312,000 net rentable square feet with a total estimated investment of approximately $70.2 million.

As of March 31, 2011, we owned and/or managed 114 medical office buildings and healthcare related facilities, totaling 5.9 million net rentable square feet. Our portfolio consists of:

- 65 consolidated wholly-owned and joint venture properties, comprising a total of approximately 3.6 million net rentable square feet, 91.0% leased;
- One wholly-owned property in the lease-up phase, comprising approximately 0.1 million net rentable square feet, 75% leased and income producing with the remaining 25% leased and under construction for a third quarter 2011 scheduled date of occupancy;

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- One consolidated joint venture acquisition property in the lease-up phase, comprising approximately 0.1 million net rentable square feet, 76.1% leased;
- Three unconsolidated joint venture properties comprising a total of approximately 0.2 million net rentable square feet; and
- 44 properties managed for third party clients comprising a total of approximately 2.0 million net rentable square feet.

At March 31, 2011, 73.3% of our wholly-owned and consolidated properties were located on hospital campuses and an additional 10.8% were located off-campus, but were hospital anchored. We believe that our on-campus and hospital anchored assets occupy a premier franchise location in relation to local hospitals, providing our properties with a distinct competitive advantage over alternative medical office space in an area. As of March 31, 2011, our 65 in-service, wholly-owned and consolidated properties were approximately 91.0% leased, with a weighted average remaining lease term of approximately 5.4 years.

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

We expect that rental revenue will remain stable due to multi-year, non-cancellable leases with annual rental increases based on the Consumer Price Index (CPI). We have been able to maintain a high occupancy rate for our in-service, consolidated wholly-owned and joint venture properties, due to our focus on customer relationships. For the three months ended March 31, 2011, we renewed 92.3% of lease expirations. Generally, our property operating revenues and expenses have remained consistent over time except for growth due to property developments and property acquisitions.

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

Critical Accounting Estimates

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

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

Acquisition of Real Estate

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

Useful Lives of Assets

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

Asset Impairment Valuation

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

We review the value of goodwill using an income approach and market approach on an annual basis and when circumstances indicate a potential impairment may exist. Our methodology to review goodwill impairment, which includes a significant amount of judgment and estimates, provides a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether or not goodwill is impaired

are outside of our control and it is likely that assumptions and estimates will change in future periods. These changes can result in future impairments which could be material.

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

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

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

Revenue Recognition

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

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

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

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

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

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Income Taxes

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

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

We will only include the current and deferred tax impact of our tax positions in the financial statements when it is more likely than not (likelihood of greater than 50%) that such positions will be sustained by taxing authorities, with full knowledge of relevant information, based on the technical merits of the tax position. While we support our tax positions by unambiguous tax law, prior experience with the taxing authority, and analysis that considers all relevant facts, circumstances and regulations, we must still rely on assumptions and estimates to determine the overall likelihood of success and proper quantification of a given tax position.

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

REIT Qualification Requirements

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

Results of Operations

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

Business Segments

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

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Property Summary

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

	Three Months Ended	
	March 31, 2011	March 31, 2010
Properties at beginning of period	66	62
Acquisitions	1	
Developments		1
Properties at end of period	67	63

	Year Ended December 31, 2010
Properties at beginning of period	62
Acquisitions	1
Developments	3
Properties at end of period	66

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

A property is considered in-service upon the earlier of (1) lease-up and substantial completion of tenant improvements, or (2) completion of the lease-up period specified within the property s underwriting. 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. We had two properties, Medical Center Physicians Tower located in Jackson, Tennessee, and St. Elizabeth Florence Medical Office Building located in Florence, Kentucky, in lease-up at March 31, 2011.

Comparison of the Three Months Ended March 31, 2011 and 2010

Funds from Operations Modified (FFOM)

For the three months ended March 31, 2011, FFOM decreased $7.6 million, or 67.9%, compared to the same period in the prior year. The $7.6 million decrease is due to decreased Design-Build and Development FFOM, offset by increased Property Operations FFOM.

The following is a summary of FFOM for the three months ended March 31, 2011 and 2010 (in thousands):

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
FFOM attributable to:		
Property operations	$ 14,218	$ 13,440
Design-Build and development	(871)	7,333
Intersegment eliminations	(873)	(518)
Unallocated and other	(8,900)	(9,106)
FFOM	$ 3,574	$ 11,149

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See Note 5 in the accompanying Notes to Condensed Consolidated Financial Statements in this Form 10-Q for business segment information and management s use of FFO and FFOM to evaluate operating performance. The following table presents the reconciliation of FFO and FFOM to net loss, which is the most directly comparable GAAP measure to FFO and FFOM, for the three months ended March 31, 2011 and 2010 (in thousands):

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Net income (loss)	$ (1,876)	$ 4,195
Add:		
Real estate related depreciation and amortization:		
Wholly-owned and consolidated properties	7,277	7,194
Unconsolidated real estate partnerships	2	3
Less:		
Noncontrolling interests in real estate partnerships	(498)	(616)
Dividends on preferred stock	(1,562)	
Funds from Operations (FFO)	3,343	10,776
Amortization of intangibles related to purchase accounting, net of income tax benefit	231	373
Funds from Operations Modified (FFOM)	$ 3,574	$ 11,149

FFOM attributable to Property Operations, net of intersegment eliminations

The following is a summary of FFOM attributable to the Property Operations segment, net of intersegment eliminations, for the three months ended March 31, 2011 and 2010 (in thousands):

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Rental revenue, net of intersegment eliminations of $0 in 2011 and $23 2010	$ 23,054	$ 21,245
Property management and other fee revenue	775	818
Property operating and management expenses	(9,287)	(8,198)
Interest and other income	164	146
Earnings (loss) from unconsolidated real estate partnerships, before real estate related depreciation and amortization	10	6
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(498)	(616)
Income from discontinued operations, before real estate related depreciation and amortization		16
FFOM, net of intersegment eliminations	14,218	13,417
Intersegment eliminations		23
FFOM	$ 14,218	$ 13,440

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

For the three months ended March 31, 2011, FFOM attributable to Property Operations, net of intersegment eliminations, increased $0.8 million, or 6.0%, compared to the same period last year. The increase in rental revenue is primarily due to the addition of four properties, Medical Center Physicians Tower which began operations in February 2010, University Physicians Grants Ferry medical office building which began operations in June 2010, HealthPartners Medical & Dental Clinics medical office building which began operations in June 2010 and St. Elizabeth Florence Medical Office Building which began operations in January 2011, as well as increases in rental rates associated with CPI increases and reimbursable expenses. The increase in property operating and management expenses and the increase in noncontrolling interests in real estate partnerships before real estate related depreciation and amortization are primarily due to the addition of the properties previously mentioned.

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

The following is a summary of FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, for the three months ended March 31, 2011 and 2010 (in thousands):

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Design-Build contract revenue and other sales, net of intersegment eliminations of $8,543 in 2011 and $3,764 in 2010	$ 15,241	$ 35,436
Development management and other income, net of intersegment eliminations of $805 in 2011 and $783 in 2010	74	103
Design-Build contract and development management expenses, net of intersegment eliminations of $8,475 in 2011 and $4,029 in 2010	(13,013)	(24,619)
Selling, general, and administrative expenses, net of intersegment eliminations of $0 in 2011 and $23 in 2010	(3,776)	(3,866)
Interest and other income	8	3
Depreciation and amortization	(278)	(219)
FFOM, net of intersegment eliminations	(1,744)	6,838
Intersegment eliminations	873	495
FFOM	$ (871)	$ 7,333

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

For the three months ended March 31, 2011, FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, decreased $8.6 million, or 125.5%, compared to the same period last year. The decrease is due to fewer active revenue generating third-party design-build construction projects and lower gross margin percentages.

Design-Build contract revenue and other sales plus development management and other income, all net of intersegment eliminations (Design-Build Revenues) decreased $20.2 million, or 56.9%, for the three months ended March 31, 2011 compared to the same period last year. This decrease is due to a lower volume of activity as the number of active third party revenue generating design-build construction projects has decreased from 11 at March 31, 2010 to nine at March 31, 2011 and the average size of the projects in 2011 is smaller than in 2010. Included in 2010 revenue was $9.8 million related to an agreement for design services only. There were no similar design services only agreements in the current period.

Gross margin percentage (design-build and development revenues less design-build contract and development management expenses and as a percent of revenues) decreased from 30.7% for the three months ended March 31, 2010 to 15.0% for the three months ended March 31, 2011. This decrease is primarily due costs being absorbed by fewer projects due to the lower volume of active projects in 2011 compared to 2010. Further, the gross margin on the $9.8 million revenue discussed in the preceding paragraph was greater than normal because it was an analysis and design agreement that utilized our engineering and architectural professionals and no construction sub-contractors.

Selling, general, and administrative expenses attributable to the Design-Build and Development segment decreased $0.1 million, or 2.3%, for the three months ended March 31, 2011, compared to the same period last year. This decrease is primarily due lower personnel costs.

Selling, general, and administrative

For the three months ended March 31, 2011, selling, general, and administrative expenses increased $0.4 million, or 6.7%, as compared to the same period last year. Excluding the changes attributable to the Design-Build and Development segment, which are discussed above, selling, general and administrative expenses increased $0.5 million

primarily due to the timing of professional services incurred.

Depreciation and amortization

For the three months ended March 31, 2011, depreciation and amortization expenses decreased $0.3 million, or 3.2%, as compared to the same period last year. The decrease is primarily due to a decrease in the amortization of intangible assets due to these assets becoming fully amortized, offset by the addition of four properties, the Medical Center Physicians Tower which began operations in February 2010, University Physicians Grants Ferry medical office building which began operations in June 2010, HealthPartners Medical & Dental Clinics medical office building which began operations in June 2010, and St. Elizabeth Florence Medical Office Building which began operations in January 2011.

Interest expense

For the three months ended March 31, 2011, interest expense decreased $0.2 million, or 4.7%, as compared to the same period last year. This decrease is primarily due to the repayment of a $50.0 million term loan in December 2010, offset by interest on mortgage notes payable for properties that became operational February 2010 and June 2010.

Income tax expense

For the three months ended March 31, 2011, income tax expense decreased $1.7 million, or 99.0%, as compared to the same period last year. We record income taxes associated with our Taxable REIT Subsidiaries (TRS), which include our Design-Build and Development business segment. The decrease in income taxes is due to income in the prior period compared to a loss in the current period for our TRS. Accordingly, we recorded income tax expense in the prior period and no income tax expense (benefit) in the current period. For the three months ended March 31, 2011, the income tax benefit associated with the loss was offset by a full deferred tax asset valuation allowance.

Cash Flows

Cash provided by operating activities increased $7.9 million, or 285.4%, for the three months ended March 31, 2011, as compared to the same period last year, and is summarized below (in thousands):

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
Net loss plus non-cash adjustments	$ 6,303	$ 11,745
Changes in operating assets and liabilities	4,365	(8,977)
Net cash provided by operating activities	$ 10,668	$ 2,768

The net loss plus non-cash adjustments decreased $5.4 million, or 46.3%, for the three months ended March 31, 2011, as compared to the same period last year. This decrease is primarily due to decreased net income after non-cash adjustments for the Design-Build and Development segment offset by increased net income after non-cash adjustments for the Property Operations segment. The changes in operating assets and liabilities increased $13.3 million for the three months ended March 31, 2011, as compared to the same period last year. This increase is primarily due to 1) stabilization of active design-build projects which resulted in the stabilization of design-build billings in excess of costs and estimated earnings on uncompleted contracts as compared to the same period last year where there was a significant decrease in billing in excess of costs and estimated earnings; and 2) an increase in tenant funding responsibility for development projects.

Cash used in investing activities increased $6.2 million, or 65.0%, for the three months ended March 31, 2011, as compared to the same period last year. The increase resulted from us having more development projects under construction in current period compared to the same period last year.

Investment in real estate properties consisted of the following for the three months ended March 31, 2011 and 2010 (in thousands):

	For the Three Months Ended	
	March 31, 2011	March 31, 2010

Development, redevelopment, and acquisitions	$	14,257	$	9,177
Second generation tenant improvements		1,122		208
Recurring property capital expenditures		239		8
Investment in real estate properties	$	15,618	$	9,393

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Investments in development, redevelopment, and acquisitions increased in the current period compared to the same period last year due to the timing of projects under construction.

Cash provided by financing activities increased by $10.7 million for the three months ended March 31, 2011, as compared to same period last year. The change is primarily due to an increase in proceeds drawn down from the Credit Facility of $10.0 million and equity net proceeds of $8.2 million offset by an increase in financing costs of $3.1 million and dividends to preferred shareholders of $1.2 million.

Construction in Progress

Construction in progress consisted of the following as March 31, 2011 (dollars in thousands):

Property	Location	Estimated Completion Date	Net Rentable Square Feet	Investment to Date	Estimated Total Investment
Good Sam MOB Investors, LLC	Puyallup, WA	4Q 2011	80,000	$ 12,012	$ 24,700
Bonney Lake MOB Investors, LLC [1]	Bonney Lake, WA	3Q 2011	56,000	14,213	17,700
St. Lukes Medical Office Building	Duluth, MN	3Q 2012	176,000	948	27,800
Land and pre-construction developments				2,812	
			312,000	$ 29,985	$ 70,200

(1) We had a 61.7% ownership interest at March 31, 2011.

Liquidity and Capital Resources

In addition to amounts available under the Credit Facility, as of March 31, 2011, we had approximately $17.2 million available in cash and cash equivalents.

We have a $200.0 million secured revolving credit facility with a syndicate of financial institutions. 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 us to borrow, subject to borrowing base availability, up to $200.0 million of revolving loans, with sub-limits of $25.0 million for swingline loans and $25.0 million for letters of credit. As of March 31, 2011, the maximum available borrowing under the Credit Facility was $122.8 million, with $55.0 million drawn, based on 70% of the value of the aggregate property pledged as collateral. We have the ability to increase the availability by pledging additional unencumbered property to the Credit Facility.

The Credit Facility also allows for up to $150.0 million of increased availability (to a total aggregate available amount of $350.0 million), at our request but subject to each lender s option to increase its commitment. The interest rate on loans under the Credit Facility equals, at our election, either (1) LIBOR (0.24% as of March 31, 2011) plus a margin of between 275 to 350 basis points based on our total leverage ratio (3.00% as of March 31, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate (3.25% as of March 31, 2011) plus a margin of between 175 to 250 basis points based on our total leverage ratio (2.00% as of March 31, 2011).

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT

qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (20%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00). Additionally, provisions in the Credit Facility indirectly prohibit us from redeeming or otherwise repurchasing any shares of our stock, including our preferred stock.

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The Credit Facility has the following financial covenants as of March 31, 2011 (dollars in thousands):

Financial Covenant	March 31, 2011
Maximum total leverage ratio (0.65 to 1.00 through March 31, 2013, and 0.60 to 1.00 thereafter)	0.49 to 1.00
Maximum secured recourse indebtedness ratio (0.20 to 1.00)	0.05 to 1.00
Minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter)	1.62 to 1.00
Minimum consolidated tangible net worth ($237,106 plus 80% of the net proceeds of equity issuance after March 1, 2011)	$295,434
Minimum facility interest coverage ratio (1.50 to 1.00)	12.61 to 1.00

As of March 31, 2011, we believe that we were in compliance with all of our debt covenants.

Short-Term Liquidity Needs

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

As of March 31, 2011, we had $76.2 million of principal and maturity payments related to mortgage notes payable due in 2011. The $76.2 million is comprised of $3.4 million for principal amortization and $72.8 million for maturities. Of the $72.8 million in maturing mortgage notes payable, $12.3 million relates to Alamance Regional Mebane Outpatient Center and can be extended for one year to May 2012. We believe that we will be able to refinance or extend the remaining $60.5 million of 2011 balloon maturities as a result of the current loan to value ratios at individual properties and preliminary discussions with lenders. The weighted average interest rate on the debt that matures in 2011 is approximately 3.0%. We expect upon refinancing that the weighted average interest rate on this debt will be greater than 3.0%.

As of March 31, 2011, we had no outstanding equity commitments to unconsolidated real estate partnerships.

On March 11, 2011, we announced that our Board of Directors had declared a quarterly dividend of $0.10 per share and operating partnership unit that was paid in cash on April 20, 2011, to holders of record on March 25, 2011.

On May 4, 2011, we announced that our Board of Directors had declared a quarterly dividend of $0.53125 per share on our Series A preferred shares for the period March 1, 2011 to May 31, 2011. The dividend will be paid on June 1, 2011, to shareholders of record on May 18, 2011.

Long-Term Liquidity Needs

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

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

We expect to fund property acquisitions through a combination of borrowings under our Credit Facility, traditional secured mortgage financing, and equity offerings. In addition, we may use OP Units issued by the Operating

Partnership to acquire properties from existing owners seeking a tax deferred transaction.

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

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

Contractual Obligations

The following table summarizes our contractual obligations as of March 31, 2011, including the maturities and scheduled principal repayments and the commitments due in connection with our ground leases and operating leases for the periods indicated (in thousands):

	Remainder of 2011	2012	2013	2014	2015	Thereafter	Total
Obligation:							
Long-term debt principal payments and maturities [1]	$ 76,172	$ 20,025	$ 15,872	$ 119,127	$ 12,490	$ 130,675	$ 374,361
Standby letters of credit [2]	8,128						8,128
Interest payments [3]	11,869	13,958	13,153	9,914	6,878	13,229	69,001
Purchase commitments [4]	608						608
Ground and air rights leases [5]	910	1,008	1,008	1,009	1,010	23,137	28,082
Operating leases [6]	3,891	4,467	3,723	3,531	3,506	21,008	40,126
Total	$ 101,578	$ 39,458	$ 33,756	$ 133,581	$ 23,884	$ 188,049	$ 520,306

(1) Includes notes payable under the Credit Facility.

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

(3) Assumes one-month LIBOR of 0.24% and a Prime Rate of 3.25%, which were the rates as of March 31, 2011.

(4) These purchase commitments are related to our development projects that are currently under construction. We have committed construction loans that will fund the obligations.

(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 equipment and office space leases. The future minimum lease commitments under these leases are as indicated.

Off-Balance Sheet Arrangements

We may guarantee debt in connection with certain of our development activities, including unconsolidated joint ventures, from time to time. As of March 31, 2011, we did not have any such guarantees or other off-balance sheet arrangements outstanding.

Real Estate Taxes

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

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Inflation

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

Seasonality

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

Recent Accounting Pronouncements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of March 31, 2011, we had $374.4 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of our total consolidated debt outstanding, $115.7 million, or 30.9%, was variable rate debt that is not subject to variable to fixed rate interest rate swap agreements, and total indebtedness, $258.7 million, or 69.1%, was subject to fixed interest rates, including variable rate debt that is subject to variable to fixed rate swap agreements. The weighted average interest rate for fixed rate debt was 6.0% as of March 31, 2011.

If LIBOR were to increase by 100 basis points based on March 31, 2011, one-month LIBOR of 0.24%, the increase in interest expense on our March 31, 2011 variable rate debt would decrease future annual earnings and cash flows by approximately $1.2 million. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, have concluded that as of March 31, 2011, our disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

During the three months ended March 31, 2011, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	COGDELL SPENCER INC. *Registrant*
Date: May 10, 2011	/s/ Raymond W. Braun Raymond W. Braun *President and Chief Executive Officer*
Date: May 10, 2011	/s/ Charles M. Handy Charles M. Handy *Executive Vice President and Chief Financial Officer*