

Cogdell Spencer Inc.  
Form 10-K  
March 16, 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13  
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
For the transition period from        to

Commission file number 001-32649

COGDELL SPENCER INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)  
4401 Barclay Downs Drive, Suite 300  
Charlotte, North Carolina  
(Address of principal executive offices)

20-3126457  
(I.R.S. Employer  
Identification No.)  
28209  
(Zip code)

Registrant's telephone number, including area code:  
(704) 940-2900

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, \$0.01 par value	New York Stock Exchange, Inc.

Securities Registered Pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
<input type="checkbox"/>	<input checked="" type="checkbox"/>	(Do not check if a smaller reporting company)	

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

The aggregate market value of the common equity held by non-affiliates if the registrant as of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was \$250,295,386 (based on the closing sale price of the registrant's common stock on that date as reported on the New York Stock Exchange).

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 17,711,839 shares of common stock, par value \$0.01 per share, outstanding as of March 12, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the registrant's 2009 Annual Meeting, to be filed within 120 days after the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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COGDELL SPENCER INC.

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## Statements Regarding Forward-Looking Information

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

the Company’s business strategy;

the Company’s ability to comply with financial covenants in its debt instruments;

the Company’s access to capital;

the Company’s ability to obtain future financing arrangements;

estimates relating to the Company’s future distributions;

the Company’s understanding of the Company’s competition;

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

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

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

the Company’s ability to maintain its qualification as a REIT due to economic, market, legal, tax or other considerations;

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

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

defaults by tenants;

market trends; and

projected capital expenditures.

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

The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company’s business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from

those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

## PART I

### Item 1. Business

#### The Company

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

In March 2008, the Company acquired Marshall Erdman & Associates, inc., now operating as Erdman Company, a subsidiary of Cogdell Spencer Inc. The Company, as a fully integrated healthcare facilities company, provides services from strategic planning to long-term property ownership and management. Integrated delivery service offerings include architecture, engineering, construction and capital project development.

The Company’s growth strategy includes leveraging strategic relationships for new wholly-owned or partially-owned developments, new design-build construction projects for third parties, and off-market acquisitions. The Company will also continue to enter into development joint ventures with hospitals and physicians.

The Company derives a majority of its revenues from two main sources: 1) from rents received from tenants under existing leases in medical office buildings and other healthcare related facilities, and 2) from revenue earned from design-build construction contracts and development contracts.

The Company’s properties have favorable leases generally with consumer price index (“CPI”) increases and cost pass through to the tenants. The Company’s property portfolio is stable with an occupancy rate of 92.4% as of December 31, 2008. The Company derives a lesser portion of its revenues from fees that are paid for managing medical office buildings (“MOB”) and other healthcare related facilities for third parties. The Company’s property management team, Cogdell Spencer Advisors, has a proactive, customer-focused service approach that leads to faster response times and greater resources to serve tenants. The Company’s management believes a strong internal property management capability is a vital component of the Company’s business, both for the properties the Company owns and for those that the Company manages. Strong internal property management allows the Company to control property operating costs, increase tenant satisfaction, and reduce tenant turnover.

MEA Holdings, Inc., the parent company of Erdman Company (together, “Erdman”), a taxable REIT subsidiary (“TRS”) of the Company, is a national full-service planning, design and construction firm specializing in healthcare facilities. Headquartered in Madison, Wisconsin, Erdman provides fully integrated solutions to healthcare facilities throughout the United States, including planning, architecture, engineering, construction, materials management, manufacturing, capital and development services. Erdman is a leading design-builder of healthcare facilities with specialized expertise and concentration in high growth healthcare market segments and facility types. Founded in 1951 and having completed more than 5,000 healthcare facilities nationwide, Erdman has a 57 year track record of and reputation for delivering healthcare facilities with appropriate design, longevity, sustainability and excellent operational efficiency. Exclusively focused on the healthcare facilities market, Erdman maintains long-term “trusted advisor” status with over 50,000 physicians nationwide. Erdman has successfully cultivated a client mix that is diversified in both geography and market focus and includes physician group practices and healthcare systems.

Erdman was ranked as the number one healthcare design-build firm for 2007 by Modern Healthcare's 2008 Construction and Design Survey.

As of December 31, 2008, the Company's portfolio consisted of 116 medical office buildings and healthcare related facilities, serving 24 hospital systems in 13 states. The Company's aggregate portfolio at December 31, 2008, was comprised of 62 consolidated wholly-owned and joint venture properties, 3 unconsolidated joint venture properties, and 51 managed medical office buildings. At December 31, 2008, approximately 80.9% of the net rentable square feet of the Company's wholly-owned properties were situated on hospital campuses. As such, the Company believes that its assets occupy a premier franchise location in relation to local hospitals, providing its properties with a distinct competitive advantage over alternative medical office space in an area. The Company believes that its property locations and relationships with hospitals will allow the Company to capitalize on the increasing healthcare trend of outpatient procedures.

At December 31, 2008, the Company's aggregate portfolio contained approximately 5.8 million net rentable square feet, consisting of approximately 3.3 million net rentable square feet from consolidated wholly-owned and joint venture properties, approximately 0.2 million net rentable square feet from unconsolidated joint venture properties, and approximately 2.3 million net rentable square feet from properties owned by third parties and managed by the Company. As of December 31, 2008, the Company's 61 in-service, consolidated wholly-owned and joint venture properties were approximately 92.4% occupied, with a weighted average remaining lease term of approximately 4.5 years.

#### The Company's Management and Design-Build Construction Companies

The Company elected to be taxed as a REIT for U.S. federal income tax purposes. In order to qualify as a REIT, a specified percentage of the Company's gross income must be derived from real property sources, which would generally exclude the Company's income from providing architectural, construction, development and management services to third parties. In order to avoid realizing such income in a manner that would adversely affect the Company's ability to qualify as a REIT, some services are provided through the Company's subsidiaries of Erdman, Cogdell Spencer Advisors, LLC ("CSA LLC"), and Consera Healthcare Real Estate, LLC ("Consera"). Erdman, CSA LLC and Consera and their subsidiaries have elected, with the Company, to be treated as TRSs. Erdman, CSA LLC and Consera are wholly-owned and controlled by the Operating Partnership.

#### Management

The Company's senior management team has an average of more than 21 years of healthcare real estate experience and has been involved in the development, redevelopment, engineering, design and construction, management, and acquisition of a broad array of medical office buildings and healthcare facilities. The Company's Chairman and founder, James W. Cogdell, has been in the healthcare real estate business for more than 37 years, and Frank C. Spencer, Chief Executive Officer, President and a member of the Board of Directors (the "Board of Directors"), has more than 13 years of experience in the industry. Scott Ransom, Erdman's Chief Executive Officer and President, has more than 15 years of experience in the industry. Six members of the senior management team have entered into employment agreements with the Company. At December 31, 2008, the Company's senior management team owned approximately 12.9% of the units of limited partnership interest in the Operating Partnership ("OP Units") and Company common stock on a fully diluted basis.

#### Business and Growth Strategies

The Company's primary business objective is to develop and maintain client relationships in order to maximize total return to the Company's stockholders through growth in cash available for distribution and appreciation in the value of the Company's assets.

#### Operating Strategy



The Company's operating strategy consists of the following principal elements:

**Strong Relationships with Physicians and Hospitals.**

Healthcare is fundamentally a local business. The Company believes it has developed a reputation based on trust and reliability among physicians and hospitals and believes that these relationships position the Company to secure new development projects and new property acquisition opportunities with both new and existing parties. Many of the Company's healthcare system clients have collaborated with the Company on multiple projects, including the Company's five largest healthcare system property management clients, with whom the Company has an average relationship lasting more than 19 years. The Company's strategy is to continue to grow its portfolio by leveraging these relationships to selectively develop new medical office buildings and healthcare related facilities in communities in need of additional facilities to support the delivery of medical services. The Company believes that physicians particularly value renting space from a trusted and reliable property owner that consistently delivers an office environment that meets their specialized needs.

#### Active Management of the Company's Properties.

The Company has developed a comprehensive approach to property and operational management to maximize the operating performance of its medical office buildings and healthcare related facilities, leading to high levels of tenant satisfaction. This fully-integrated property and operating management allows the Company to provide high quality seamless services to its tenants on a cost-effective basis. The Company believes that its operating efficiencies, which consistently exceed industry standards, will allow the Company to control costs for its tenants. The Company intends to maximize the Company's stockholders' return on their investment and to achieve long-term functionality and appreciation in its medical office buildings and healthcare related facilities through continuing its practice of active management of its properties. The Company manages its properties with a view toward creating an environment that supports successful medical practices. The properties are clean and kept in a condition that is conducive to the delivery of top-quality medical care to patients. The Company understands that in order to maximize the value of its investments, its tenants must prosper as well. Therefore, the Company is committed to maintaining its properties at the highest possible level.

#### Key On-Campus Locations

At December 31, 2008, approximately 80.9% of the net rentable square feet of the Company's wholly-owned properties were situated on hospital campuses. On-campus properties provide the Company's physician-lessees and their patients with a convenient location so that they can move between medical offices and hospitals with ease, which drives revenues for the Company's physician-lessees. Many of these properties occupy a premier franchise location in relation to the local hospital, providing the Company's properties with a distinct competitive advantage over alternative medical office space in the area that are located farther away from the local hospital. The Company has found that the factors most important to physician-lessees when choosing a medical office building or healthcare related facility in which to locate their offices are convenience to a hospital campus, clean and attractive common areas, state-of-the-art amenities and tenant improvements tailored to each practice.

#### Loyal and Diverse Tenant Base.

The Company's focus on maintaining the Company's physician-lessees' loyalty is a key component of the Company's marketing and operating strategy. A focus on physician-lessee loyalty and the involvement of the physician-tenants and hospitals as investors in the Company's properties results in one of the more stable and diversified tenant bases of any medical office company in the United States. As of December 31, 2008, the Company's 61 in-service, consolidated wholly-owned and joint venture properties had an average occupancy rate of approximately 92.4%. The Company's tenants are diversified by type of medical practice, medical specialty and sub-specialty. As of December 31, 2008, no single tenant accounted for more than 7.5% of the annualized rental revenue at the wholly-owned properties and no tenants were in default.

#### Unique Focus.

The Company focuses exclusively on the ownership, development, redevelopment, acquisition and management of medical office buildings and healthcare related facilities in the United States of America. The focus on medical office buildings and healthcare related facilities allows the Company to own, develop, redevelop, acquire and manage medical office buildings and healthcare related facilities more effectively and profitably than its competition. Unlike many other public companies that simply engage in sale/leaseback arrangements in the healthcare real estate sector, the Company also operates its properties. The Company believes that this focus may position the Company to achieve additional cash flow growth and appreciation in the value of its assets.



## Development and Acquisition Strategy

The Company's development and acquisition strategy consists of the following principal elements:

### Project delivery.

The Company's project delivery teams focus on the development and design-build components of the integrated business model specializing in healthcare real estate. The Company and predecessor companies have developed and/or designed-built over 5,000 healthcare facilities including hospitals, medical office buildings, ambulatory surgery centers, wellness centers and multi-specialty clinics. The Company's project delivery unit operates as a wholly-owned subsidiary of Cogdell Spencer Inc., and provides fully integrated healthcare real estate services from strategic planning and development to architecture to construction. The Company has built strong relationships with leading non-profit and for-profit healthcare systems who look to provide real estate solutions that will support the growth of medical communities built around their hospitals and regional medical centers. The Company focuses exclusively on medical office buildings and healthcare related facilities and believe that its experience and understanding of real estate and healthcare gives it a competitive advantage over less specialized developers. Further, the Company's specialized regional focus provides extensive local industry knowledge and insight across the United States. The Company believes the network of relationships that have been fostered in both the real estate and healthcare industries that span over five decades provides access to a large volume of potential development and acquisitions opportunities.

### Selective Development and Acquisitions.

The Company intends to leverage its strong healthcare real estate track record and extensive client network to continue to grow its portfolio of medical office buildings and healthcare related facilities by selectively acquiring existing medical office buildings and by developing new projects in communities in need of expanded facilities to support the delivery of medical services. While the Company intends to continue the evaluation of acquisition opportunities primarily within the joint venture partnership with Northwestern Mutual, the focus of capital deployment has shifted to development and design-build project delivery. As of December 31, 2008, the joint venture partnership with Northwestern Mutual did not have any acquisitions under contract that the Company expects to go forward.

### Develop and Maintain Strategic Relationships.

The Company intends to build upon its key strategic relationships with physicians, hospitals, not-for-profit agencies and religious entities that sponsor healthcare services to further enhance the Company's franchise. The Company expects to continue entering into joint ventures with individual physicians, physician groups and hospitals. These joint ventures have been, and the Company believes will continue to be, a source of development and acquisition opportunities. Of the 63 healthcare properties the management team developed or acquired over the past 13 years, 36 of them represent repeat transactions with an existing client institution. The Company anticipates that it will also continue to offer potential physician-lessees the opportunity to invest in the Company in order that they may continue to feel a strong sense of attachment to the property in which they practice. The Company intends to continue to work

closely with its tenants in order to cultivate long-term working relationships and to maximize new business opportunities. The Company works closely with its clients and carefully considers their objectives and needs when evaluating an investment opportunity. The Company believes that this philosophy allows the Company to build long-term relationships and obtain franchise locations otherwise unavailable to the Company's competition.

#### Investment Criteria and Funding.

The Company intends to expand in its existing markets and enter into markets that research indicates will meet its investment strategy in the future. The Company generally will seek to select clients and assets in locations that the Company believes will complement its existing portfolio. The Company may also selectively pursue portfolio opportunities outside of its existing markets that will not only add incremental value, but will also add diversification and economies of scale to the existing portfolio. In assessing a potential development or acquisition opportunity, the Company focuses on the economics of the medical community and the strength of local hospitals. The analysis focuses on trying to place the project on a hospital campus or in a strategic growth corridor based on demographics.

Historically, the Company has financed real property developments and acquisitions through joint ventures in which the physicians who lease space at the properties, and in some cases, local hospitals or regional medical centers, provided the equity capital. The Company has continued this practice of entering into joint ventures with individual physicians, physician groups and hospitals.

The Company has a \$150 million secured revolving credit facility (the "Credit Facility"). As of December 31, 2008, the Company had cash and cash equivalents of approximately \$34.7 million and the Company's Credit Facility had approximately \$17.5 of available borrowings, which the Company can use to finance development and acquisition opportunities. The Company plans to finance future acquisitions through a combination of cash, borrowings under the Credit Facility, traditional secured mortgage financing, and equity offerings.

### Business Segments

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

The Company's management evaluates the operating performance of its operating segments based on funds from operations ("FFO") and funds from operations modified ("FFOM"). FFO, as defined by the National Association of Real Estate Investment Trusts, or NAREIT, represents net income (computed in accordance with GAAP), excluding gains from sales of property, plus real estate depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. The Company adjusts the NAREIT definition to add back minority interests in the Operating Partnership. FFOM adds back to FFO non-cash amortization of non-real estate related intangible assets associated with purchase accounting. The Company presents FFO and FFOM because the Company considers them as important supplemental measures of the Company's operational performance. The Company believes FFO is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income. The Company's methodology may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO and FFOM do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO and FFOM should not be considered as alternatives to net income (loss) (computed in accordance with GAAP) as an indicator of the Company's performance, nor are they indicative of funds available to fund the Company's cash needs, including the Company's ability to pay dividends or make distributions.

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



## Regulation

The following discussion describes certain material U.S. federal healthcare laws and regulations that may affect the Company's operations and those of the Company's tenants. However, the discussion does not address state healthcare laws and regulations, except as otherwise indicated. These state laws and regulations, like the U.S. federal healthcare laws and regulations, could affect the Company's operations and those of the Company's tenants.

The regulatory environment remains stringent for healthcare providers. Fraud and abuse statutes that regulate hospital and physician relationships continue to broaden the industry's awareness of the need for experienced real estate management. New requirements for Medicare coding, physician recruitment and referrals, outlier charges to commercial and government payors, and corporate governance have created a difficult operating environment for some hospitals.

Generally, healthcare real estate properties are subject to various laws, ordinances and regulations. Changes in any of these laws or regulations, such as the Comprehensive Environmental Response and Compensation Liability Act, increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on the properties. In addition, laws affecting development, construction, operation, upkeep, safety and taxation requirements may result in significant unanticipated expenditures, loss of healthcare real estate property sites or other impairments to operations, which would adversely affect the Company's cash flows from operating activities.

As the Company's properties and entities are not healthcare providers, the healthcare regulatory restrictions that apply to physician investment in healthcare providers are not applicable to the ownership interests held by physicians in the Company's properties except as discussed below. For example, the Stark II law, which, unless an exception applies, prohibits physicians from referring patients to any entity if they have a financial relationship with or ownership interest in the entity and the entity provides certain designated health services, does not apply to physician ownership in the Company's entities because these entities do not own or operate hospitals, nor do they provide any designated health services. In addition, the Federal Anti-Kickback Statute, which generally prohibits payment or solicitation of remuneration in exchange for referrals for items and services covered by federal health care programs to persons in a position to refer such business, also does not apply to ownership in the existing properties as these entities do not provide or bill for medical services of any kind. Similar state laws that prohibit physician self referrals or kickbacks also do not apply for the same reasons. Notwithstanding the foregoing, the Company cannot make any assurances that regulatory authorities will agree with the Company's interpretation of these laws.

Although the Company's properties and entities are not healthcare providers, certain federal healthcare regulatory restrictions could be implicated by ownership interests held by physicians in the Company's properties because the properties and entities may have both physician and hospital owners and such hospitals and physicians may have financial relationships apart from the Company's properties and entities which may create direct and indirect financial relationships subject to these laws and regulations. For example, under the Stark II law discussed above, an ownership in one of the Company's entities may serve as a link in a chain of financial relationships connecting a physician and a hospital which must be analyzed for compliance with the requirements of the Stark II law.

Under the Americans with Disabilities Act of 1990, or the ADA, all places of public accommodation are required to meet certain U.S. federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws also exist that may require modifications to properties, or restrict certain further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature and in substantial capital expenditures. To the extent the Company's properties are not in compliance, the Company may incur additional costs to comply with the ADA.



Property management activities are often subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

In addition, state and local laws regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare related facilities, by requiring a certificate of need, which is issued by the applicable state health planning agency only after that agency makes a determination that a need exists in a particular area for a particular service or facility, or other similar approval. New laws and regulations, changes in existing laws and regulations or changes in the interpretation of such laws or regulations could negatively affect the financial condition of the Company's lessees. These changes, in some cases, could apply retroactively. The enactment, timing or effect of legislative or regulatory changes cannot be predicted. In addition, certain of the Company's medical office buildings and healthcare related facilities and their lessees may require licenses or certificates of need to operate. Failure to obtain a license or certificate of need, or loss of a required license would prevent a facility from operating in the manner intended by the lessee.

#### Environmental Matters

Pursuant to U.S. federal, state and local environmental laws and regulations, a current or previous owner or operator of real property may be required to investigate, remove and/or remediate a release of hazardous substances or other regulated materials at or emanating from such property. Further, under certain circumstances, such owners or operators of real property may be held liable for property damage, personal injury and/or natural resource damage resulting from or arising in connection with such releases. Certain of these laws have been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The failure to properly remediate the property may also adversely affect the owner's ability to lease, sell or rent the property or to borrow funds using the property as collateral.

In connection with the ownership, operation and management of the Company's current or past properties and any properties that the Company may acquire and/or manage in the future, the Company could be legally responsible for environmental liabilities or costs relating to a release of hazardous substances or other regulated materials at or emanating from such property. In order to assess the potential for such liability, the Company conducts an environmental assessment of each property prior to acquisition and manages the Company's properties in accordance with environmental laws while the Company owns or operates them. All of the Company's leases contain a comprehensive environmental provision that requires tenants to conduct all activities in compliance with environmental laws and to indemnify the owner for any harm caused by the failure to do so. In addition, the Company has engaged qualified, reputable and adequately insured environmental consulting firms to perform environmental site assessments of all of the Company's properties and is not aware of any environmental issues that are expected to have materially impacted the operations of any property.

#### Insurance

The Company believes that its properties are covered by adequate (as deemed necessary or as required by the Company's lenders) fire, flood, earthquake, wind and property insurance, as well as commercial liability insurance, provided by reputable companies and with commercially reasonable deductibles and limits. Furthermore, the Company believes that its businesses and assets are likewise adequately insured against casualty loss and third party liabilities. The Company engages a risk management consultant. Changes in the insurance market since September 11, 2001 have caused increases in insurance costs and deductibles, and have led to more active management of the insurance component of the Company's budget for each project; however, most of the Company's leases provide that insurance premiums are considered part of the operating expenses of the respective property, and the tenants are therefore responsible for any increases in the Company's premiums.

Erdman's business activities could expose it to potential liability under various environmental laws and under workplace health and safety regulations. The Company cannot predict the magnitude of such potential liabilities. The Company maintains a comprehensive general liability policy with an umbrella policy that covers losses beyond the

general liability limits. The Company also maintains professional errors and omissions liability and contractor's pollution liability insurance policies. Both policies provide adequate coverage for Erdman's business.

The Company obtains insurance coverage through a broker that is experienced in the professional liability field. The broker and the Company's risk manager regularly review the adequacy of the Company's insurance coverage. Because there are various exclusions and retentions under the policies, or an insurance carrier may become insolvent, there can be no assurance that all potential liabilities will be covered by the Company's insurance policies or paid by the Company's carriers.

The Company evaluates the risk associated with claims. If there is a determination that a loss is probable and reasonably estimable, an appropriate reserve is established. A reserve is not established if the Company determines that a claim has no merit or is not probable or reasonably estimable. Partially or completely uninsured claims, if successful and of significant magnitude, could have a material adverse effect on the Company's business.

### Competition

The Company competes in developing and acquiring medical office buildings and healthcare related facilities with financial institutions, institutional pension funds, real estate developers, other REITs, other public and private real estate companies and private real estate investors.

Depending on the characteristics of a specific market, the Company may also face competition in leasing available medical office buildings and healthcare related facilities to prospective tenants. However, the Company believes that it brings a depth of knowledge and experience in working with physicians, hospitals, not-for-profit agencies and religious entities that sponsor healthcare services that makes the Company an attractive real estate partner for both development projects and acquisitions.

The market for design-build construction services is generally highly competitive and fragmented. Erdman's competitors are numerous, consisting mainly of small and regional private firms. The Company believes that it is well positioned to compete in its markets because of its healthcare industry specialization, strong reputation, long-term client relationships, and integrated delivery of services.

### Employees

As of December 31, 2008, the Company had 606 employees. The Company's professional staff performs functions in property management, acquisitions, real estate development, architecture, engineering, and construction management. Less than 5% of the Company's employees are covered by collective bargaining agreements, which are subject to amendment in November 2009, or by specific labor agreements, which expire upon completion of the relevant project. There are no material disagreements with employees and the Company considers the relationships with its employees to be favorable.

### Equity Offerings

In January 2008, the Company issued 3,448,278 shares of common stock in a private offering at a price of \$15.95 per share. The company received net proceeds of approximately \$53.8 million from the private offering. The net proceeds offerings were used to reduce outstanding principal on the Company's Credit Facility (defined in Note 9 to the accompanying consolidated financial statements) and for working capital purposes. See "Unregistered Sales of Equity Securities and Use of Proceeds."

In September 2008, the Company issued 2,160,000 shares of common stock in a public offering at a price of \$18.50 per share resulting in net proceeds to the Company of approximately \$37.4 million. The net proceeds offerings were used to reduce outstanding principal on the Company's Credit Facility and for working capital purposes.

Acquisitions

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

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

In March 2008, the Company acquired Erdman for \$246.8 million. The transaction was financed through \$20.5 million of assumed cash, a \$100.0 million Term Loan (defined in Note 9 to the accompanying consolidated financial statements), \$75.3 million, inclusive of escrow amount, rollover of equity held by Erdman principal shareholders and members of its management team, and \$51.0 million, inclusive of escrow amount, from the Company's \$150.0 million secured Credit Facility.

In September 2008, the Company acquired a controlling interest in Genesis Property Holding, LLC ("Genesis"), located in Pensacola, Florida for \$2.2 million. Genesis is in the early stages of constructing an approximately \$22.4 million, 75,985 square foot medical office building and outpatient treatment center. The project is 100% pre-leased and construction is scheduled for completion in fourth quarter 2009. The Company owns 40% of Genesis and the remaining 60% is owned by physician-tenants of the building. Erdman is the developer and the design-build company for the joint venture; however, because the joint venture is consolidated, all inter-company profit is eliminated in consolidation.

#### Available Information

The Company files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the "SEC"). You may obtain copies of these documents by visiting the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company's Website is [www.cogdellspencer.com](http://www.cogdellspencer.com). Its reports on Forms 10-K, 10-Q and 8-K, and all amendments to those reports are posted on the Company's Website as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The contents of the Company's Website are not incorporated by reference herein.

#### Item 1A. Risk Factors

##### Risks Related to the Company's Properties and Operations

The Company's real estate investments are concentrated in medical office buildings and healthcare related facilities, making the Company more vulnerable economically than if the Company's investments were diversified.

As a REIT, the Company invests primarily in real estate. Within the real estate industry, the Company selectively owns, develops, redevelops, acquires and manages medical office buildings and healthcare related facilities. The Company is subject to risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of the Company's business strategy to invest primarily in medical office buildings and healthcare related facilities. A downturn in the medical office building industry or in the commercial real estate industry generally, could significantly adversely affect the value of the Company's properties. A downturn in the healthcare industry could negatively affect the Company's tenants' ability to make rent payments to the Company, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock. These adverse effects could be more pronounced than if the Company held a diverse portfolio of investments outside of real estate or outside of medical office buildings and healthcare related properties.

The Company depends on significant tenants.

As of December 31, 2008, the Company's five largest tenants represented \$14.9 million, or 20.4%, of the annualized rent generated by the Company's properties. The Company's five largest tenants based on annualized rents are Carolinas HealthCare System, Palmetto Health Alliance, Bon Secours St. Francis Hospital, University Hospital (Augusta, GA), and Gaston Memorial Hospital. The Company's tenants may experience a downturn in their businesses, which may weaken their financial condition and result in their failure to make timely rental payments or their default under their leases. In the event of any tenant default, the Company may experience delays in enforcing the Company's rights as landlord and may incur substantial costs in protecting the Company's investment.

The bankruptcy or insolvency of the Company's tenants under the Company's leases could seriously harm the Company's operating results and financial condition.

The Company will receive a substantial amount of the Company's income as rent payments under leases of space in the Company's properties. The Company has no control over the success or failure of the Company's tenants' businesses and, at any time, any of the Company's tenants may experience a downturn in its business that may weaken its financial condition. As a result, the Company's tenants may delay lease commencement or renewal, fail to make rent payments when due, or declare bankruptcy. Any leasing delays, lessee failures to make rent payments when due, or tenant bankruptcies could result in the termination of the tenant's lease and, particularly in the case of a large tenant, may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders, and the trading price of the Company's common stock.

If tenants are unable to comply with the terms of the Company's leases, the Company may be forced to modify lease terms in ways that are unfavorable to the Company. Alternatively, the failure of a tenant to perform under a lease or to extend a lease upon expiration of its term could require the Company to declare a default, repossess the property, find a suitable replacement tenant, operate the property, or sell the property. There is no assurance that the Company will be able to lease the property on substantially equivalent or better terms than the prior lease, or at all. The Company may not be able to find another tenant, successfully reposition the property for other uses, successfully operate the property, or sell the property on terms that are favorable to the Company.

If any lease expires or is terminated, the Company will be responsible for all of the operating expenses for that vacant space until it is re-let. If the Company experiences high levels of vacant space, the Company's operating expenses may increase significantly. Any significant increase in the Company's operating costs may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

Any bankruptcy filings by or relating to one of the Company's tenants could bar all efforts by the Company to collect pre-bankruptcy debts from that lessee or seize its property, unless the Company receives an order permitting the Company to do so from the bankruptcy court, which the Company may be unable to obtain. A tenant bankruptcy could also delay the Company's efforts to collect past due balances under the relevant leases and could ultimately preclude full collection of these sums. If a tenant assumes the lease while in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to the Company in full. However, if a tenant rejects the lease while in bankruptcy, the Company would have only a general unsecured claim for pre-petition damages. Any unsecured claim the Company holds may be paid only to the extent that funds are available and only in the same percentage as is paid to all other holders of unsecured claims. It is possible that the Company may recover substantially less than the full value of any unsecured claims the Company holds, if any, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders, and the trading price of the Company's common stock. Furthermore, dealing with a tenant bankruptcy or

other default may divert management's attention and cause the Company to incur substantial legal and other costs.



The global financial crisis, and other events or circumstances beyond the control of the Company, may adversely affect the Company's industry, business, results of operations, contractual commitments, and access to capital.

What began initially as a "subprime" mortgage crisis has turned into an extraordinary U.S. and worldwide structural economic and financial crisis coupled with the rapid decline of the consumer economy. Recently, significant concerns over energy costs, geopolitical issues, the availability and cost of credit, the United States mortgage market and a declining real estate market in the United States have contributed to increased volatility and diminished expectations for the economy and the markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated a steep economic decline and fears of a deep and prolonged recession. Further, severe financial and structural strains on the banking and financial systems have led to significant lack of trust and confidence in the global credit and financial system. Consumers and money managers have liquidated equity investments and consumers and banks have held cash and other lower risk investments, resulting in significant and, in some cases, catastrophic declines in the equity capitalization of companies and unusual failures of financial institutions. Additionally, financial systems throughout the world are undergoing severe structural changes with banks much less willing to lend substantial amounts to other banks and borrowers. This extraordinary level of illiquidity has caused a significant decline in available credit from financial institutions and other lenders and the unprecedented declines in the market values of United States and foreign stock exchanges has led to significantly higher cost of debt and equity capital.

The United States and foreign governments have taken extraordinary actions in an attempt to deal with the worldwide financial crisis and the severe decline in the consumer driven economy. These extraordinary actions, including the merger of large financial institutions and significant investment in and control by government bodies, has so far resulted in limited or no relief to the credit markets, and there is no assurance that their actions will ultimately be successful. Additionally, extraordinary government controls have been attempted, including a temporary ban of "short sales" on certain publicly traded stocks and guarantees of money market funds, which have also resulted in limited relief, if any, to the credit markets. The resulting and ongoing lack of available credit, lack of lending between financial institutions and other key lending sources (such as life insurance companies and pension funds), lack of lending to borrowers and further failures and consolidation of financial institutions could materially and adversely affect the Company's tenants, key vendors and contractors, financial condition, results of operations, ability to fund development and redevelopment activities, ability to refinance debt and other capital needs and access to capital.

Adverse economic or other conditions in the markets in which the Company does business could negatively affect the Company's occupancy levels and rental rates and therefore the Company's operating results.

The Company's operating results are dependent upon its ability to maximize occupancy levels and rental rates in the Company's portfolio. Adverse economic or other conditions in the markets in which the Company operates may lower the Company's occupancy levels and limit the Company's ability to increase rents or require the Company to offer rental discounts. The following factors are primary among those which may adversely affect the operating performance of the Company's properties:

periods of economic slowdown or recession, rising interest rates or declining demand for medical office buildings and healthcare related facilities, or the public perception that any of these events may occur, could result in a general decline in rental rates or an increase in tenant defaults;

the national economic climate in which the Company operates, which may be adversely impacted by, among other factors, a reduction in the availability of debt or equity financing, industry slowdowns, relocation of businesses and changing demographics;

local or regional real estate market conditions such as the oversupply of medical office buildings and healthcare related facilities or a reduction in demand for medical office buildings and healthcare related facilities in a particular area;

negative perceptions by prospective tenants of the safety, convenience and attractiveness of the Company's properties and the neighborhoods in which they are located;

earthquakes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses; and changes in the tax, real estate and zoning laws.

The failure of the Company's properties to generate revenues sufficient to meet the Company's cash requirements, including operating and other expenses, debt service and capital expenditures, may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more a significant period of time. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial and/or operating strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that the Company will not experience an adverse effect, which may be material, on the Company's business, financial condition, and results of operations. Disruptions, uncertainty or volatility in the capital markets may also limit the Company's access to capital from financial institutions on attractive terms, or at all, and its ability to raise capital through the issuance of equity securities could be adversely affected by causes beyond the control of the Company through ongoing extraordinary disruptions in the global economy and financial systems or other events.

The majority of the Company's consolidated wholly-owned and joint venture properties are located in Georgia, North Carolina, and South Carolina, and changes in these markets may materially adversely affect the Company.

The Company's consolidated wholly-owned and joint venture properties located in Georgia, North Carolina, and South Carolina, provide approximately 11.3%, 23.9% and 28.4%, respectively, of the Company's total annualized rent as of December 31, 2008. As a result of the geographic concentration of properties in these markets, the Company is particularly exposed to downturns in these local economies or other changes in local real estate market conditions. In the event of negative economic changes in these markets, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

The Company's investments in development and redevelopment projects may not yield anticipated returns, which would harm the Company's operating results and reduce the amount of funds available for distributions.

A key component of the Company's growth strategy is exploring new-asset development and redevelopment opportunities through strategic joint ventures. To the extent that the Company engages in these development and redevelopment activities, they will be subject to the following risks normally associated with these projects:

the Company may be unable to obtain financing for these projects on attractive terms or at all;

the Company may not complete development projects on schedule or within budgeted amounts;

the Company may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations;

occupancy rates and rents at newly developed or redeveloped properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in the Company's investment not being profitable; and start-up costs may be higher than anticipated.

In deciding whether to develop or redevelop a particular property, the Company makes certain assumptions regarding the expected future performance of that property. The Company may underestimate the costs necessary to bring the property up to the standards established for its intended market position or the Company may be unable to

increase occupancy at a newly acquired property as quickly as expected or at all. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these development or redevelopment projects and have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company may in the future develop medical office buildings and healthcare related facilities in geographic regions where the Company does not currently have a significant presence and where the Company does not possess the same level of familiarity, which could adversely affect the Company's ability to develop such properties successfully or at all or to achieve expected performance.

The Company has relied, and in the future may rely, on the investments of the Company's joint venture partners for the funding of the Company's development and redevelopment projects. If the Company's reputation in the healthcare real estate industry changes or the number of investors considering the Company as an attractive strategic partner is otherwise reduced, the Company's ability to develop or redevelop properties could be affected, which would limit the Company's growth.

If the Company's investments in development and redevelopment projects do not yield anticipated returns for any reason, including those set forth above, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

The Company may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede the Company's growth and negatively affect the Company's results of operations.

The Company's ability to expand through acquisitions is a key component of its long-term growth strategy and requires the Company to identify suitable acquisition candidates or investment opportunities that meet its criteria and are compatible with its growth strategy. The Company may not be successful in identifying suitable properties or other assets that meet the Company's acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions or investment opportunities will slow the Company's growth, which could in turn adversely affect the Company's stock price.

The Company's ability to acquire properties on attractive terms and successfully integrate and operate them may be constrained by the following significant risks:

failure to finance an acquisition on attractive terms or at all;

competition from other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;

competition from other potential acquirers may significantly increase the purchase price for an acquisition property, which could reduce the Company's profitability;

unsatisfactory results of the Company's due diligence investigations or failure to meet other customary closing conditions;

the Company may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties; and

the Company may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by persons in respect of events transpiring or conditions existing before the Company acquired the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If any of these risks are realized, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

The Company may not be able to obtain additional capital to further its business objectives.

The Company's ability to develop, redevelop or acquire properties depends upon its ability to obtain capital. The real estate industry is currently experiencing a debt and equity capital market that is virtually frozen. This lack of capital is expected to cause a decrease in the level of new investment activity by publicly traded real estate companies. A prolonged period in which the Company cannot effectively access the public equity or debt markets may result in heavier reliance on alternative financing sources to undertake new investments. An inability to obtain equity or debt capital on acceptable terms could delay or prevent the Company from acquiring, financing and completing desirable investments, and which could otherwise adversely affect the Company's business. Also, the issuance of additional shares of capital stock or interests in subsidiaries to fund future operations could dilute the ownership of the Company's then-existing stockholders. Even as liquidity returns to the market, debt and equity capital may be more expensive than in prior years.

If the Company is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than expected or if the Company is required to undertake significant capital expenditures to attract new tenants, then the Company's business and results of operations would be adversely affected.

Virtually all of the Company's leases are on a multiple year basis. As of December 31, 2008, leases representing 13.4% of the Company's net rentable square feet will expire in 2009, 13.9% in 2010 and 9.3% in 2011. These expirations would account for 13.6%, 13.8% and 9.4% of the Company's annualized rent, respectively. Approximately 75.6% of the square feet of the Company's properties and 83.1% of the number of the Company's properties are subject to certain restrictions. These restrictions include limits on the Company's ability to re-let these properties to tenants not affiliated with the healthcare system that own the underlying property, rights of first offer on sales of the property and limits on the types of medical procedures that may be performed. In addition, lower than expected rental rates upon re-letting could impede the Company's growth. The Company cannot assure you that it will be able to re-let space on terms that are favorable to the Company or at all. Further, the Company may be required to make significant capital expenditures to renovate or reconfigure space to attract new tenants. If it is unable to promptly re-let its properties, if the rates upon such re-letting are significantly lower than expected or if the Company is required to undertake significant capital expenditures in connection with re-letting units, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

Certain of the Company's properties may not have efficient alternative uses.

Some of the Company's properties, such as the Company's ambulatory surgery centers, are specialized medical facilities. If the Company or the Company's tenants terminate the leases for these properties or the Company's tenants lose their regulatory authority to operate such properties, the Company may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, the Company may be required to spend substantial amounts to adapt the properties to other uses. Any loss of revenues and/or additional capital expenditures occurring as a result may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company faces competition for the acquisition of medical office buildings and healthcare related facilities, which may impede the Company's ability to make future acquisitions or may increase the cost of these acquisitions.

The Company competes with many other entities engaged in real estate investment activities for acquisitions of medical office buildings and healthcare related facilities, including national, regional and local operators, acquirers and developers of healthcare real estate properties. The competition for healthcare real estate properties may significantly increase the price the Company must pay for medical office buildings and healthcare related facilities or other assets the Company seeks to acquire and the Company's competitors may succeed in acquiring those properties or assets themselves. In addition, the Company's potential acquisition targets may find the Company's competitors to be more attractive because they may have greater resources, may be willing to pay more for the properties or may have a more compatible operating philosophy. In particular, larger healthcare REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, the Company may pay higher prices if the Company purchases single properties in comparison with portfolio acquisitions. If the Company pays higher prices for medical office buildings and healthcare related facilities or other assets, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially

and adversely affected.

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The Company may not be successful in integrating and operating acquired properties.

The Company expects to make future acquisitions of medical office buildings and healthcare related facilities. If the Company acquires medical office buildings and healthcare related facilities, the Company will be required to integrate them into the Company's existing portfolio. The acquired properties may turn out to be less compatible with the Company's growth strategy than originally anticipated, may cause disruptions in the Company's operations or may divert management's attention away from day-to-day operations, any or all of which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company's medical office buildings and healthcare related facilities, their associated hospitals and the Company's tenants may be unable to compete successfully.

The Company's medical office buildings and healthcare related facilities, and their associated hospitals often face competition from nearby hospitals and other medical office buildings that provide comparable services. Some of those competing facilities are owned by governmental agencies and supported by tax revenues, and others are owned by nonprofit corporations and may be supported to a large extent by endowments and charitable contributions. These types of support are not available to the Company's buildings.

Similarly, the Company's tenants face competition from other medical practices in nearby hospitals and other medical facilities. The Company's tenants' failure to compete successfully with these other practices could adversely affect their ability to make rental payments, which could adversely affect the Company's rental revenues. Further, from time to time and for reasons beyond the Company's control, referral sources, including physicians and managed care organizations, may change their lists of hospitals or physicians to which they refer patients. This could adversely affect the Company's tenants' ability to make rental payments, which could adversely affect the Company's rental revenues.

The Company depends upon its tenants to operate their businesses in a manner which generates revenue sufficient to allow them to meet their obligations to the Company, including their obligation to pay rent. Any reduction in rental revenues resulting from the inability of the Company's medical office buildings and healthcare related facilities, their associated hospitals and the Company's tenants to compete successfully may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company may incur impairment charges on goodwill or other intangible assets.

Because the Company has grown in part through acquisitions, goodwill and other acquired intangible assets represent a significant portion of the Company's assets. The Company performs an annual impairment review on its goodwill and other intangible assets in the fourth quarter of every fiscal year. In addition, the Company performs an impairment review whenever events or changes in circumstances indicate that the carrying value of goodwill or other intangible assets may exceed the fair value of such assets. At some future date, the Company may determine that an impairment has occurred in the value of goodwill or other intangible assets. In such an event, the Company may be required to recognize an impairment loss which could have a material adverse affect the Company's financial condition and results of operations.

Uninsured losses or losses in excess of the Company insurance coverage could adversely affect the Company's financial condition and the Company's cash flow.

The Company maintains comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by the Company's lenders), extended coverage and rental loss insurance with respect to the Company's properties with policy specifications, limits and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots, acts of war or terrorism. Should an uninsured loss occur, the Company could lose both the Company's investment in and anticipated profits and cash flow from a property. If any such loss is insured, the Company may be required to pay a significant deductible on any claim for recovery of such a loss prior to the Company's insurer being obligated to reimburse the Company for the loss, or the amount of the loss may exceed the Company's coverage for the loss. In addition, future lenders may require such insurance, and the Company's failure to obtain such insurance could constitute a default under loan agreements. As a result, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

Joint investments could be adversely affected by the Company's lack of sole decision-making authority and reliance upon a co-venturer's financial condition.

The Company may co-invest with third parties through partnerships, joint ventures, co-tenancies or other entities, acquiring non-controlling interests in, or sharing responsibility for managing the affairs of, a property, partnership, joint venture, co-tenancy or other entity. Therefore, the Company may not be in a position to exercise sole decision-making authority regarding that property, partnership, joint venture or other entity. Investments in partnerships, joint ventures, or other entities may involve risks not present were a third party not involved, including the possibility that the Company's partners, co-tenants or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, the Company's partners or co-venturers might at any time have economic or other business interests or goals, which are inconsistent with the Company's business interests or goals. These investments may also have the potential risk of impasses on decisions such as a sale, because neither the Company nor the partner, co-tenant or co-venturer would have full control over the partnership or joint venture. Consequently, actions by such partner, co-tenant or co-venturer might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, the Company may in specific circumstances be liable for the actions of third-party partners, co-tenants or co-venturers.

The Company's mortgage agreements and ground leases contain certain provisions that may limit the Company's ability to sell certain of the Company's medical office buildings and healthcare related facilities.

In order to assign or transfer the Company's rights and obligations under certain of the Company's mortgage agreements, the Company generally must:

obtain the consent of the lender;

pay a fee equal to a fixed percentage of the outstanding loan balance; and

pay any costs incurred by the lender in connection with any such assignment or transfer.

In addition, ground leases on certain of the Company's properties contain restrictions on transfer such as limiting the assignment or subleasing of the facility only to practicing physicians or physicians in good standing with an affiliated hospital. These provisions of the Company's mortgage agreements and ground leases may limit the Company's ability to sell certain of the Company's medical office buildings and healthcare related facilities which, in turn, could adversely impact the price realized from any such sale

26 of the Company's consolidated wholly-owned and joint venture properties are subject to ground or air rights leases that expose the Company to the loss of such properties upon breach or termination of the ground or air rights leases

The Company has 26 consolidated wholly-owned and joint venture properties that are subject to leasehold interests in the land or air underlying the buildings and the Company may acquire additional buildings in the future that are subject to similar ground or air leases. These 26 consolidated wholly-owned and joint venture properties represent 50.8% of the Company's total net rentable square feet. As lessee under a ground lease, the Company is exposed to the possibility of losing the property upon termination, or an earlier breach by the Company, of the ground lease, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.



Environmental compliance costs and liabilities associated with operating the Company's properties may affect the Company's results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of investigating and remediating certain hazardous substances or other regulated materials on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances or materials. The presence of such substances or materials, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials.

Certain environmental laws also impose liability, without regard to knowledge or fault, for removal or remediation of hazardous substances or other regulated materials upon owners and operators of contaminated property even after they no longer own or operate the property. Moreover, the past or present owner or operator from which a release emanates could be liable for any personal injuries or property damages that may result from such releases, as well as any damages to natural resources that may arise from such releases. Certain environmental laws impose compliance obligations on owners and operators of real property with respect to the management of hazardous materials and other regulated substances. For example, environmental laws govern the management of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions.

No assurances can be given that existing environmental studies with respect to any of the Company's properties reveal all environmental liabilities, that any prior owner or operator of the Company's properties did not create any material environmental condition not known to the Company, or that a material environmental condition does not otherwise exist as to any one or more of the Company's properties. There also exists the risk that material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future. Finally, future laws, ordinances or regulations and future interpretations of existing laws, ordinances or regulations may impose additional material environmental liability.

The realization of any or all of these risks may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.

Under the Americans with Disabilities Act of 1990, or the ADA, all places of public accommodation are required to meet certain U.S. federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws may also require modifications to the Company's properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and/or an order to correct any non-complying feature, which could result in substantial capital expenditures. The Company has not conducted an audit or investigation of all of the Company's properties to determine the Company's compliance and the Company cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of the Company's properties is not in compliance with the ADA or other related legislation, then the Company would be required to incur additional costs to bring the facility into compliance. If the Company incurs substantial costs to comply with the

ADA or other related legislation, the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock may be materially and adversely affected.

### Risks Related to Erdman's Business

The continued integration of Erdman could prove difficult, disrupt the Company's business and strain the Company's resources.

The Company acquired Erdman in March 2008. Since that time the Company has worked to integrate Erdman's business with that of the Company. This integration continues to involve a number of risks, including:

challenges in integrating operations, technologies, services, accounting and personnel;

challenges in managing new product lines, including planning, architecture, engineering, construction, materials management, manufacturing, capital and development services;

challenges in supporting and transitioning customers of Erdman to the Company's technology platforms and business processes;

diversion of financial and management resources from existing operations; and

inability to generate sufficient revenues to offset acquisition or investment costs.

Over the long term, the acquisition of Erdman may turn out to be less compatible with the Company's growth strategy than originally anticipated, especially because Erdman's operations have not been part of the Company's core business strategy. Although the Company performed due diligence on Erdman's business prior to acquiring Erdman, an unavoidable level of risk remains regarding the actual condition of Erdman's business. For example, the Company may have acquired unknown or unasserted liabilities or claims or liabilities not susceptible of discovery during the Company's due diligence investigation that only manifest themselves at a later date.

If the Company is unsuccessful in overcoming these risks, the Company's business, financial condition or results of operations could be materially and adversely affected.

The current credit crisis and adverse economic conditions could cause Erdman's clients to delay, curtail or cancel proposed or existing projects, which could result in a decrease in demand for Erdman's services.

The demand for Erdman's services has been, and will likely continue to be, cyclical in nature and vulnerable to general downturns in the U.S. economy. Adverse economic conditions may decrease Erdman's customers' willingness or ability to make capital expenditures or otherwise reduce their spending to purchase Erdman's services, which could result in reduced revenues or margins for Erdman's business. Many of Erdman's customers finance their projects through cash flow from operations, the incurrence of debt or the issuance of equity. Recently, there has been a significant decline in the credit markets and reductions in the availability of credit. Furthermore, Erdman's customers may be affected by economic downturns that decrease the need for their services or the profitability of their services, which could result in a decrease of their cash flow from operations. A reduction in Erdman's customers' cash flow from operations and the lack of availability of debt or equity financing could cause Erdman's customers to delay, curtail or cancel proposed or existing projects, which could result in a decrease in demand for Erdman's services.

Erdman's results of operations depend upon the award of new contracts and the nature and timing of those awards.

Erdman's revenues are derived primarily from contracts awarded on a project-by-project basis. Generally, it is very difficult to predict whether and when Erdman will be awarded a new contract since many potential contracts involve a lengthy and complex bidding and selection process that may be affected by a number of factors, including

changes in existing or assumed market conditions, financing arrangements, governmental approvals and environmental matters. Because Erdman's revenues are derived primarily from these contracts, its results of operations and cash flows can fluctuate materially from period to period depending on the timing of contract awards.

In addition, adverse economic conditions could alter the overall mix of services that Erdman's customers seek to purchase, and increased competition during a period of economic decline could result in Erdman accepting contract terms that are less favorable to Erdman than it might otherwise be able to negotiate. Changes in Erdman's mix of services or a less favorable contracting environment may cause Erdman's and the Company's revenues and margins to decline.



If Erdman experiences delays and/or defaults in customer payments, Erdman could be unable to recover all expenditures.

Because of the nature of Erdman's contracts, Erdman may at times commit its financial resources to projects prior to receiving payments from the customer in amounts sufficient to cover expenditures on the projects as they are incurred. Delays in customer payments may require Erdman to make a working capital investment. If a customer defaults in making payments on a project in which Erdman has devoted significant financial resources, it could have a material adverse effect on Erdman's business. This risk can be exacerbated as a result of a downturn in economic conditions, including recent developments in the economy and capital markets.

Erdman may experience reduced profits or, in some cases, losses under its guaranteed maximum price contracts if costs increase above its estimates.

Most of Erdman's contracts are currently negotiated guaranteed maximum price or fixed price contracts, giving Erdman's clients a clear understanding of the project's costs but also locking in Erdman so that Erdman bears a significant portion or all of the risk for cost overruns. Under these guaranteed maximum price or fixed price contracts, contract prices payable by customers are established in part on cost and scheduling estimates which are based on a number of assumptions, including assumptions about future economic conditions, prices and availability of labor, equipment and materials, and other exigencies. If these estimates prove inaccurate, or the Company encounters other unanticipated difficulties with respect to projects under guaranteed maximum price or fixed price contracts (such as errors, omissions or other deficiencies in the components of projects designed by or on behalf of Erdman, problems with new technologies, difficulties in obtaining permits or approvals, adverse weather, unknown or unforeseen conditions, labor actions or disputes, changes in legal requirements, unanticipated decisions, interpretations or actions by governmental authorities having jurisdiction over the Company's projects, fire or other casualties, terrorist or similar acts, unanticipated difficulty or delay in obtaining materials or equipment, unanticipated increase in the cost of materials or equipment, failures or defaults of suppliers or subcontractors to perform, or other causes within or beyond the control of Erdman which delay the performance or completion of a project or increase Erdman's cost of performing the services and work to complete the project), cost overruns may occur, and Erdman could experience reduced profits or, in some cases, a loss for that project. The existence or impact of these and other items may not be or become known until the end of a project.

The nature of Erdman's engineering, architecture, construction and other businesses exposes it to potential liabilities and disputes which may reduce its profits.

Erdman engages in engineering, architecture, construction and other services where design, construction or systems failures can result in substantial injury or damage to customers and/or third parties. In addition, the nature of Erdman's business results in customers, subcontractors, vendors, suppliers and governmental authorities occasionally asserting claims against Erdman for damages or losses for which they believe Erdman is liable, including damages and/or losses (including consequential damages or losses) arising from allegations of: (1) defective, nonconforming, legally noncompliant or otherwise deficient design, materials, equipment or workmanship; (2) late performance, completion or delivery of all or any portion of a project; (3) bodily injury, sickness, disease or death; (4) injury to or destruction of property; (5) failure to design or perform work in accordance with applicable laws, statutes, ordinances, and regulations of any governmental authority; (6) violations of the Federal "Occupational Safety and Health Act", or any other laws, ordinances, rules regulations or orders of any Federal, State or local public authority having jurisdiction for the safety of persons or property, including but not limited to any Fire Department and Board of Health; (7) violations or infringements of any trademark, copyright or patent, or any unfair competition, or infringement of any other tangible or intangible personal or property rights; and (8) failure to pay parties providing services, labor, materials, equipment, supplies and similar items to projects.



Many of Erdman's contracts with customers do not limit Erdman's liability for damages or losses. These claims often arise in the normal course of Erdman's business, and may be asserted with respect to projects completed and/or past occurrences. When it is determined that Erdman has liability, such liability may not be covered by insurance or, if covered, the dollar amount of the liability may exceed Erdman's policy limits. Any liability not covered by insurance, in excess of insurance limits or, if covered by insurance but subject to a high deductible, could result in significant loss, which could reduce profits and cash available for operations. Furthermore, claims asserting liability for these and other matters, whether for projects previously completed or projects to be completed in the future, may not be asserted or otherwise become known until a later date. Performance problems and/or liability claims for existing or future projects could adversely impact Erdman's reputation within its industry and among its client base, making it more difficult to obtain future projects.

Environmental compliance costs and liabilities associated with Erdman's business may affect Erdman's results of operations .

Erdman's operations are subject to environmental laws and regulations, including those concerning:

generation, storage, handling, treatment and disposal of hazardous material and wastes;

emissions into the air;

discharges into waterways; and

health and safety.

Erdman's projects often involve highly regulated materials, including hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require Erdman to obtain permits and comply with various other requirements. The improper characterization, handling, or disposal of regulated materials or any other failure by us to comply with federal, state and local environmental laws and regulations or associated environmental permits could subject Erdman to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent Erdman's ability to operate its business and complete contracted projects.

In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), and comparable state laws, Erdman may be required to investigate and remediate regulated materials. CERCLA and the comparable state laws typically impose liability without regard to whether a company knew of or caused the release, and liability for the entire cost of clean-up can be imposed upon any responsible party.

The environmental, workplace, employment and health and safety laws and regulations, among others, to which Erdman is subject are complex, change frequently and could become more stringent in the future. It is impossible to predict the effect that any future changes to these laws and regulations could have on Erdman. Any failure to comply with these laws and regulations could materially adversely affect Erdman's business, financial condition and results of operations.

#### Risks Related to the Healthcare Industry

Adverse trends in healthcare provider operations may negatively affect the Company's lease revenues and the Company's ability to make distributions to the Company's stockholders.

The healthcare industry is currently experiencing:

changes in the demand for and methods of delivering healthcare services;

changes in third party reimbursement policies;

substantial competition for patients among healthcare providers;

continued pressure by private and governmental payors to reduce payments to providers of services; and

increased scrutiny of billing, referral and other practices by U.S. federal and state authorities.

These factors may adversely affect the economic performance of some or all of the Company's tenants and, in turn, the Company's lease revenues, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

Reductions in reimbursement from third party payors, including Medicare and Medicaid, could adversely affect the profitability of the Company's tenants and hinder their ability to make rent payments to the Company.

Sources of revenue for the Company's tenants may include the U.S. federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Healthcare providers continue to face increased government and private payor pressure to control or reduce costs. Efforts by such payors to reduce healthcare costs will likely continue, which may result in reductions or slower growth in reimbursement for certain services provided by some of the Company's tenants. In addition, the failure of any of the Company's tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government sponsored payment programs. A reduction in reimbursements to the Company's tenants from third party payors for any reason could adversely affect the Company's tenants' ability to make rent payments to the Company, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The healthcare industry is heavily regulated, and new laws or regulations, changes to existing laws or regulations, loss of licensure or failure to obtain licensure could result in the inability of the Company's tenants to make rent payments to the Company.

The healthcare industry is heavily regulated by U.S. federal, state and local governmental bodies. The Company's tenants generally will be subject to laws and regulations covering, among other things, licensure, certification for participation in government programs and relationships with physicians and other referral sources.

In addition, state and local laws regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare related facilities, by requiring a certificate of need, which is issued by the applicable state health planning agency only after that agency makes a determination that a need exists in a particular area for a particular service or facility, or other similar approval. New laws and regulations, changes in existing laws and regulations or changes in the interpretation of such laws or regulations could negatively affect the financial condition of the Company's tenants. These changes, in some cases, could apply retroactively. The enactment, timing or effect of legislative or regulatory changes cannot be predicted. In addition, certain of the Company's medical office buildings and healthcare related facilities and their tenants may require licenses or certificates of need to operate. Failure to obtain a license or certificate of need, or loss of a required license would prevent a facility from operating in the manner intended by the tenant.

These events could adversely affect the Company's tenants' ability to make rent payments to the Company, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company's tenants are subject to fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant's ability to make rent payments to the Company.

There are various federal and state laws prohibiting fraudulent and abusive business practices by healthcare providers who participate in, receive payments from or are in a position to make referrals in connection with

government-sponsored healthcare programs, including the Medicare and Medicaid programs. The Company's lease arrangements with certain tenants may also be subject to these fraud and abuse laws.

These laws include:

the Federal Anti-Kickback Statute, which prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for, or to induce, the referral of Medicare and Medicaid patients;

the Stark II Law, which, subject to specific exceptions, restricts physicians who have financial relationships with healthcare providers from making referrals for specifically designated health services for which payment may be made under Medicare or Medicaid programs to an entity with which the physician, or an immediate family member, has a financial relationship;

the False Claims Act, which prohibits any person from knowingly presenting false or fraudulent claims for payment to the federal government, including under the Medicare and Medicaid programs; and

the Civil Monetary Penalties Law, which authorizes the Department of Health and Human Services to impose monetary penalties for certain fraudulent acts.

Each of these laws includes criminal and/or civil penalties for violations that range from punitive sanctions, damage assessments, penalties, imprisonment, denial of Medicare and Medicaid payments and/or exclusion from the Medicare and Medicaid programs. Additionally, certain laws, such as the False Claims Act, allow for individuals to bring whistleblower actions on behalf of the government for violations thereof. Imposition of any of these penalties upon one of the Company's tenants or associated hospitals could jeopardize that tenant's ability to operate or to make rent payments or affect the level of occupancy in the Company's medical office buildings or healthcare related facilities associated with that hospital, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

#### Risks Related to the Real Estate Industry

Illiquidity of real estate investments could significantly impede the Company's ability to respond to adverse changes in the performance of the Company's properties.

Because real estate investments are relatively illiquid, the Company's ability to promptly sell one or more properties in the Company's portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond the Company's control. The Company cannot predict whether the Company will be able to sell any property for the price or on the terms set by the Company or whether any price or other terms offered by a prospective purchaser would be acceptable to the Company. The Company also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

The Company may be required to expend funds to correct defects or to make improvements before a property can be sold. The Company cannot assure you that it will have funds available to correct those defects or to make those improvements. In acquiring a property, the Company may agree to transfer restrictions that materially restrict it from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede the Company's ability to sell a property even if the Company deems it necessary or appropriate. These facts and any others that would impede the Company's ability to respond to adverse changes in the performance of its properties may have a material adverse effect on its business, financial condition, results of operations, or ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

Any investments in unimproved real property may take significantly longer to yield income-producing returns, if at all, and may result in additional costs to the Company to comply with re-zoning restrictions or environmental regulations

The Company may invest in unimproved real property. Unimproved properties generally take longer to yield income-producing returns based on the typical time required for development. Any development of unimproved real property may also expose the Company to the risks and uncertainties associated with re-zoning the land for a higher use or development and environmental concerns of governmental entities and/or community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real property could restrict the Company's ability to earn its targeted rate of return on an investment or adversely affect the Company's ability to pay operating expenses, which may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.



## Risks Related to Debt Financings

Required payments of principal and interest on borrowings may leave the Company with insufficient cash to operate the Company's properties or to pay the distributions currently contemplated or necessary to qualify as a REIT and may expose the Company to the risk of default under the Company's debt obligations.

At December 31, 2008, the Company has approximately \$465.0 million of outstanding indebtedness, \$365.0 million of which is secured. Approximately \$50.6 million and \$31.7 million of the Company's outstanding indebtedness will mature in 2009 and 2010, respectively. The Company expects to incur additional debt in connection with future development and redevelopment projects and acquisitions. The Company may borrow under its Credit Facility, or borrow new funds to complete these projects and acquisitions. Additionally, the Company does not anticipate that the Company's internally generated cash flow will be adequate to repay the Company's existing indebtedness upon maturity and, therefore, the Company expects to repay the Company's indebtedness through refinancings and future offerings of equity and/or debt.

If the Company is required to utilize the Company's Credit Facility for purposes other than development, redevelopment and acquisition activities, this will reduce the amount available for development and redevelopment projects and acquisitions and could slow the Company's growth. Therefore, the Company's level of debt and the limitations imposed on the Company by the Company's debt agreements could have adverse consequences, including the following:

the Company's cash flow may be insufficient to meet the Company's required principal and interest payments;

the Company may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions;

the Company may be unable to refinance the Company's indebtedness at maturity or the refinancing terms may be less favorable than the terms of the Company's original indebtedness;

because a portion of the Company's debt bears interest at variable rates, an increase in interest rates could materially increase the Company's interest expense;

the Company may be forced to dispose of one or more of the Company's properties, possibly on disadvantageous terms;

after debt service, the amount available for distributions to the Company's stockholders is reduced;

the Company's debt level could place the Company at a competitive disadvantage compared to the Company's competitors with less debt;

the Company may experience increased vulnerability to economic and industry downturns, reducing the Company's ability to respond to changing business and economic conditions;

the Company may default on the Company's obligations and the lenders or mortgagees may foreclose on the Company's properties that secure their loans and receive an assignment of rents and leases;

the Company may violate financial covenants which would cause a default on the Company's obligations;



the Company may inadvertently violate non-financial restrictive covenants in the Company's loan documents, such as covenants that require the Company to maintain the existence of entities, maintain insurance policies and provide financial statements, which would entitle the lenders to accelerate the Company's debt obligations; and

the Company may default under any one of the Company's mortgage loans with cross-default or cross-collateralization provisions that could result in default on other indebtedness or result in the foreclosures of other properties.

The realization of any or all of these risks may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

As a result of recent market events, including the contraction among and failure of certain lenders, it may be more difficult for the Company to secure financing.

The Company's results of operations may be materially affected by conditions in the financial markets and the economy generally. Recently, concerns over inflation, energy costs, geopolitical issues, unemployment, the availability and cost of credit, the mortgage market and a declining real estate market have contributed to increased volatility and diminished expectations for the economy and markets.

Dramatic declines in the housing market, with decreasing home prices and increasing foreclosures and unemployment, have resulted in significant asset write-downs by financial institutions, which have caused many financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. The Company relies on the availability of financing to execute its business strategy. Institutions from which the Company may seek to obtain financing may have owned or financed residential mortgage loans, real estate-related securities and real estate loans which have declined in value and caused losses as a result of the recent downturn in the markets. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. If these conditions persist, these institutions may become insolvent. As a result of recent market events, it may be more difficult for the Company to secure financing as there are fewer institutional lenders and those remaining lenders have tightened their lending standards.

As a result of these events, it may be more difficult for the Company to obtain financing on attractive terms, or at all, and the Company's financial position and results of operations could be adversely affected.

The Company's ability to pay distributions is dependent on a number of factors and is not assured, and the Company's distributions to stockholders may decline at any time.

The Company's ability to make distributions depends upon a variety of factors, including efficient management of the Company's properties and the successful implementation by the Company of a variety of the Company's growth initiatives, and may be adversely affected by the risks described elsewhere in this Annual Report on Form 10-K. All distributions will be made at the discretion of the Board of Directors and depend on the Company earnings, the Company's financial condition, the REIT distribution requirements and other factors that the Board of Directors may consider from time to time. The Company cannot assure you that the level of the Company's distributions will increase over time or that the Company will be able to maintain the Company's future distributions at levels that equal or exceed the Company's historical distributions. The Company may be required to fund future distributions either from borrowings under the Company's Credit Facility, with the proceeds from equity offerings, which could be dilutive, or from property sales, which could be at a loss, or reduce such distributions. A reduction in distributions to stockholders may negatively impact the Company's stock price.



The Company could become highly leveraged in the future because the Company's organizational documents contain no limitations on the amount of debt the Company may incur.

The Company's organizational documents contain no limitations on the amount of indebtedness that the Company or the Operating Partnership may incur. The Company could alter the balance between the Company's total outstanding indebtedness and the value of the Company's wholly-owned properties at any time. If the Company becomes more highly leveraged, the resulting increase in debt service could adversely affect the Company's ability to make payments on the Company's outstanding indebtedness and to pay the Company's anticipated distributions and/or the distributions required to qualify as a REIT, and may materially and adversely affect the Company's business, financial condition, results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

Increases in interest rates may increase the Company's interest expense and adversely affect the Company's cash flow and the Company's ability to service the Company's indebtedness and make distributions to the Company's stockholders.

As of December 31, 2008, the Company has approximately \$465.0 million of outstanding indebtedness, of which approximately \$124.2 million, or 26.7%, is subject to variable interest rates (excluding debt subject to variable to fixed interest rate swap agreements). This variable rate debt had a weighted average interest rate of approximately 1.9% per year as of December 31, 2008. Increases in interest rates on this variable rate debt would increase the Company's interest expense, which could adversely affect the Company's cash flow and the Company's ability to pay distributions. For example, if market rates of interest on this variable rate debt increased by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately \$1.2 million annually.

Failure to hedge effectively against interest rate changes may adversely affect the Company's results of operations.

In certain cases, the Company may seek to manage the Company's exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement, that the arrangements may not be effective in reducing the Company's exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. In addition, the Company may be limited in the type and amount of hedging transactions the Company may use in the future by the Company's need to satisfy the REIT income tests under the Code. Failure to hedge effectively against interest rate changes may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

The Company's Credit Facility and Term Loan contains financial covenants that could limit the Company's operations and the Company's ability to make distributions to the Company's stockholders.

The Company's Credit Facility and Term Loan (defined in Note 9 to the accompanying consolidated financial statements) contains financial and operating covenants, including tangible net worth requirements, fixed charge coverage and debt ratios and other limitations on the Company's ability to make distributions or other payments to the Company's stockholders (other than those required by the Code), sell all or substantially all of the Company's assets and engage in mergers, consolidations and certain acquisitions.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to: (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the Company's REIT qualification and listing on the New York Stock Exchange, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates. The Term Loan contains customary covenants including, but not limited to, (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the Company's REIT qualification and listing on the New York Stock Exchange, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates. Both the Credit Facility and the Term Loan have financial covenants to be met by the Company at all times including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances issued after the closing date). In addition, there are financial covenants relating only to Erdman, including a covenant relating to maximum consolidated senior indebtedness to adjusted consolidated EBITDA (4.25 to 1.00 as of December 31, 2008, decreasing to 3.75 to 1.00 on July 1, 2009). As of December 31, 2008, consolidated senior indebtedness to adjusted consolidated EBITDA was 3.71, and Erdman may be required to repay a portion of the principal balance during 2009 if adjusted consolidated EBITDA is insufficient to meet the lowered ratio of maximum consolidated senior indebtedness to adjusted consolidated EBITDA that occurs in 2009. Failure to meet the Company's financial covenants could result from, among other things, changes in the Company's results of operations, the incurrence of debt or changes in general economic conditions. Advances under the Company's Credit Facility may be subject to borrowing base requirements on the Company's secured medical office buildings or healthcare related facilities. These covenants may restrict the Company's ability to engage in transactions that the Company believes would otherwise be in the best interests of the Company's stockholders. Failure to comply with any of the covenants in the Company's Credit Facility or Term Loan could result in a default under one or more of the Company's debt instruments. This could cause one or more of the Company's lenders to accelerate the timing of payments and may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

If lenders under the Company's Credit Facility fail to meet their funding commitments, the Company's financial position would be negatively impacted.

Access to external capital on favorable terms is critical to the Company's success in growing and maintaining its portfolio. If financial institutions within the Company's Credit Facility were unwilling or unable to meet their respective funding commitments to the Company, any such failure would have a negative impact on the Company's operations, financial condition and ability to meet its obligations, including the payment of dividends to stockholders.

#### Risks Related to the Company's Organization and Structure

Mr. Cogdell, the Company's Chairman, owned 8.5% of the Company's outstanding common stock and OP units on a fully-diluted basis as of December 31, 2008 and therefore has the ability to exercise influence over the Company and any matter presented to the Company's stockholders.

Mr. Cogdell, the Company's Chairman, owned approximately 8.5% of the Company's outstanding common stock and OP units on a fully-diluted basis as of December 31, 2008. Consequently, Mr. Cogdell may be able to influence the outcome of matters submitted for stockholder action, including the election of the Board of Directors and approval of significant corporate transactions, including business combinations, consolidations and mergers and the

determination of the Company's day-to-day corporate and management policies. Therefore, Mr. Cogdell has influence over the Company and could exercise his influence in a manner that is not in the best interests of the Company's other stockholders.

The Company's business could be harmed if key personnel terminate their employment with the Company.

The Company's success depends, to a significant extent, on the continued services of Mr. Cogdell, the Company's Chairman, Mr. Spencer, the Company's Chief Executive Officer, President and a member of the Board of Directors, and the other members of the Company's senior management team. The Company's senior management team has an average of 23 years of experience in the healthcare real estate industry. In addition, the Company's ability to continue to acquire and develop properties depends on the significant relationships the Company's senior management team has developed. There is no guarantee that any of them will remain employed by the Company. The Company does not maintain key person life insurance on any of the Company's officers. The loss of services of one or more members of the Company's senior management team could harm the Company's business and the Company's prospects.

Tax indemnification obligations could limit the Company's operating flexibility by limiting the Company's ability to sell specified properties.

In connection with the formation transactions and certain other property acquisitions, the Company entered into a tax protection agreement with the former owners of each contributed medical office building or healthcare related facility who received OP units.

Pursuant to these agreements, the Company will not sell, transfer or otherwise dispose of any of the medical office buildings or healthcare related facilities (each a "protected asset") or any interest in a protected asset prior to the eighth anniversary of the closing of the offering unless:

1. a majority-in-interest of the former holders of interests in the predecessor partnerships or contributing entities (or their successors, which may include the Company to the extent any OP units have been redeemed or exchanged) with respect to such protected asset consent to the sale, transfer or other disposition; provided, however, with respect to three of the predecessor entities, Cabarrus POB, LLC, Medical Investors I, LLC and Medical Investors III, LLC, the required consent shall be a majority-in-interest of the beneficial owners of interests in the predecessor entities other than Messrs. Cogdell and Spencer and their affiliates; or
2. the Operating Partnership delivers to each such holder of interests, a cash payment intended to approximate the holder's tax liability related to the recognition of such holder's built-in gain resulting from the sale of such protected asset; or
3. the sale, transfer or other disposition would not result in the recognition of any built-in gain by any such holder of interests.

Protected assets represent approximately 75.6% of the Company's total net rentable square feet. If the Company were to sell all of these protected assets and the Company undertook such sale without obtaining the requisite consent of the contributing holders, then the Company would be required to make material payments to these holders. The prospect of making payments under the tax protection agreements could impede the Company's ability to respond to changing economic, financial and investment conditions. For example, it may not be economical for the Company to raise cash quickly through a sale of one or more of the Company's protected assets or dispose of a poorly performing protected asset until the expiration of the eight-year protection period.

Tax indemnification obligations may require the Operating Partnership to maintain certain debt levels.

The Company's tax protection agreements also provide that during the period from the closing of the initial public offering in 2005 through the twelfth anniversary thereof, the Operating Partnership will offer each holder who continues to hold at least 50% of the OP units received in respect of the consolidation transaction the opportunity to: (1) guarantee debt or (2) enter into a deficit restoration obligation. If the Company fails to offer such opportunities, the Company will be required to deliver to each holder a cash payment intended to approximate the holder's tax liability resulting from the Company's failure to make such opportunities available to that holder. The Company agreed to these provisions in order to assist such holders in deferring the recognition of taxable gain as a result of and after the consolidation transaction. These obligations may require the Company to maintain more or different indebtedness than the Company would otherwise require for the Company's business.



The Company may pursue less vigorous enforcement of terms of contribution and other agreements because of conflicts of interest with certain of the Company's officers.

Mr. Cogdell, the Company's Chairman, Mr. Spencer, the Company's Chief Executive Officer, President and a member of the Board of Directors, Charles M. Handy, the Company's Chief Financial Officer, Senior Vice President and Secretary, and other members of the Company's management team, have direct or indirect ownership interests in certain properties contributed to the Operating Partnership in the Formation Transactions. The Company, under the agreements relating to the contribution of such interests, is entitled to indemnification and damages in the event of breaches of representations or warranties made by the contributors. The Company may choose not to enforce, or to enforce less vigorously, the Company's rights under these agreements because of the Company's desire to maintain the Company's ongoing relationships with the individual party to these agreements. In connection with the acquisition of Erdman, the Company entered into various agreements with Erdman, including the merger agreement, pursuant to which the Company is entitled to indemnification and damages in the event of breaches of representations and warranties made by Erdman. Because two members of the Company's Board of Directors, Mr. Lubar and Mr. Ransom, and certain other key employees and personnel were also former owners, officers and directors of Erdman, the Company may choose not to enforce, or to enforce less vigorously, the Company's rights under these agreements. In addition, the Company is party to employment agreements with Messrs. Cogdell, Spencer, Handy and Ransom, which provide for additional severance following termination of employment if the Company elects to subject the executive officer to certain non-competition, confidentiality and non-solicitation provisions. Although their employment agreements require that they devote substantially all of their full business time and attention to the Company, if the executive officer forgoes the additional severance, he will not be subject to such non-competition provisions, which would allow him to compete with the Company. None of these agreements were negotiated on an arm's-length basis.

Conflicts of interest could arise as a result of the Company UPREIT structure.

Conflicts of interest could arise in the future as a result of the relationships between the Company and the Company's affiliates, on the one hand, and the Operating Partnership or any partner thereof, on the other. The Company's directors and officers have duties to the Company under applicable Maryland law in connection with their management of the Company. At the same time, the Company, through the Company's wholly-owned subsidiary, has fiduciary duties, as a general partner, to the Operating Partnership and to the limited partners under Delaware law in connection with the management of the Operating Partnership. The Company's duties, through the Company's wholly-owned subsidiary, as a general partner to the Operating Partnership and its partners may come into conflict with the duties of the Company's directors and officers. The partnership agreement of the Operating Partnership does not require the Company to resolve such conflicts in favor of either the Company's stockholders or the limited partners in the Operating Partnership.

Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits the Company's liability by providing that neither the Company, nor the Company's wholly-owned Maryland business trust subsidiary, as the general partner of the Operating Partnership, nor any of the Company or its trustees, directors or officers, will be liable or accountable in damages to the Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if the general partner or such trustee, director or officer, acted in good faith. In addition, the Operating Partnership is required to indemnify the Company, the Company's affiliates and each of the Company's respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation,

attorneys' fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that the Operating Partnership will not indemnify any such person for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and the Company has not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict the Company's fiduciary duties that would be in effect under common law were it not for the partnership agreement.

Certain provisions of the Company's organizational documents, including the stock ownership limit imposed by the Company's charter, could prevent or delay a change in control transaction.

The Company's charter, subject to certain exceptions, authorizes the Company's directors to take such actions as are necessary and desirable to preserve the Company's qualification as a REIT and to limit any person to actual or constructive ownership of 7.75% (by value or by number of shares, whichever is more restrictive) of the Company's outstanding common stock or 7.75% (by value or by number of shares, whichever is more restrictive) of the Company's outstanding capital stock. The Board of Directors, in its sole discretion, may exempt additional persons from the ownership limit. However, the Board of Directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize the Company's qualification as a REIT. These restrictions on ownership will not apply if the Board of Directors determines that it is no longer in the Company's best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for the Company's common stock or otherwise be in the best interests of the Company's stockholders.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of the Company.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium price for holders of the Company's common stock or otherwise be in their best interests, including:

“business combination” provisions that, subject to certain limitations, prohibit certain business combinations between the Company and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of the Company's shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special minimum price provisions and special stockholder voting requirements on these combinations; and

“control share” provisions that provide that “control shares” of the Company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by the Company's stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

These provisions of the MGCL relating to business combinations do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, the Board of Directors has by resolution exempted Mr. Cogdell, his affiliates and associates and all persons acting in concert with the foregoing, and Mr. Spencer, his affiliates and associates and all persons acting in concert with the foregoing, from these provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between the Company and these persons. As a result, these persons may be able to enter into business combinations with the Company that may not be in the best interests of the Company's stockholders without compliance by the Company with the supermajority vote requirements and the other provisions of the statute. In addition, the Company's by-laws contain a provision exempting from the provisions of the MGCL relating to control

share acquisitions any and all acquisitions by any person of the Company's common stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits the Board of Directors, without stockholder approval and regardless of what is currently provided in the Company's charter or bylaws, to take certain actions that may have the effect of delaying, deferring or preventing a transaction or a change in control of the Company that might involve a premium to the market price of the Company's common stock or otherwise be in the Company's stockholders' best interests.

The Board of Directors has the power to cause the Company to issue additional shares of the Company's stock and the general partner has the power to issue additional OP units without stockholder approval.

The Company's charter authorizes the Board of Directors to cause the Company to issue additional authorized but unissued shares of common stock, or preferred stock and to amend the Company's charter to increase the aggregate number of authorized shares or the authorized number of shares of any class or series without stockholder approval. The general partner will be given the authority to issue additional OP units. In addition, the Board of Directors may classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. The Board of Directors could cause the Company to issue additional shares of the Company's common stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for the Company's common stock or otherwise be in the best interests of the Company's stockholders.

The Company's rights and the rights of the Company's stockholders to take action to recover money damages from the Company's directors and officers are limited.

The Company's charter eliminates the Company's directors' and officers' liability to the Company and the Company's stockholders for money damages, except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. The Company's charter authorizes the Company, and the Company's bylaws require the Company, to indemnify the Company's directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. In addition, the Company may be obligated to fund the defense costs incurred by the Company's directors and officers.

You will have limited ability as a stockholder to prevent the Company from making any changes to the Company policies that you believe could harm the Company's business, prospects, operating results or share price.

The Board of Directors will adopt policies with respect to certain activities, such as investments, dispositions, financing, lending, the Company's equity capital, conflicts of interest and reporting. These policies may be amended or revised from time to time at the discretion of the Board of Directors without a vote of the Company's stockholders. This means that the Company's stockholders will have limited control over changes in the Company's policies. Such changes in the Company's policies intended to improve, expand or diversify the Company's business may not have the anticipated effects and consequently may have a material adverse effect on the Company's business, financial condition and results of operations, the Company's ability to make distributions to the Company's stockholders and the trading price of the Company's common stock.

To the extent the Company's distributions represent a return of capital for tax purposes you could recognize an increased capital gain upon a subsequent sale by you of the Company's common stock.

Distributions in excess of the Company's current and accumulated earnings and profits and not treated by the Company as a dividend will not be taxable to a U.S. stockholder to the extent those distributions do not exceed the stockholder's adjusted tax basis in its common stock, but instead will constitute a return of capital and will reduce the stockholder's adjusted tax basis in its common stock. If distributions result in a reduction of a stockholder's adjusted basis in such holder's common stock, subsequent sales of such holder's common stock potentially will result in recognition of an increased capital gain or reduced capital loss due to the reduction in such adjusted basis.

If the Company were to make a taxable distribution of shares of its stock, stockholders may be required to sell such shares or sell other assets owned by them in order to pay any tax imposed on such distribution.

As a REIT, the Company is required to distribute at least 90% of its taxable income to its stockholders. The Company may distribute taxable dividends that are payable in shares of its stock. Under IRS Revenue Procedure 2009-15, up to 90% of any such taxable dividend for 2009 could be payable in its shares. If the Company were to make such a taxable distribution of shares of its stock, stockholders would be required to include the full amount of such distribution into income. As a result, a stockholder may be required to pay tax with respect to such dividends in excess of cash received. Accordingly, stockholders receiving a distribution of the Company's shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a stockholder sells the shares it receives as a dividend in order to pay such tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of shares of its stock at the time of sale. Moreover, in the case of a taxable distribution of shares of the Company's stock with respect to which any withholding tax is imposed on a stockholder, the Company may have to withhold or dispose of part of the shares in such distribution and use such withheld shares or the proceeds of such disposition to satisfy the withholding tax imposed.

## Risks Related to Qualification and Operation as a REIT

The Company's failure to qualify or remain qualified as a REIT would have significant adverse consequences to the Company and the value of the Company's common stock.

The Company intends to operate in a manner that will allow the Company to qualify as a REIT for U.S. federal income tax purposes under the Code. The Company has not requested and does not plan to request a ruling from the IRS that the Company qualifies as a REIT, and the statements in the Company's prospectus and other filings are not binding on the IRS or any court. If the Company fails to qualify or loses the Company's qualification as a REIT, the Company will face serious tax consequences that would substantially reduce the funds available for distribution to the Company's stockholders for each of the years involved because:

the Company would not be allowed a deduction for distributions to stockholders in computing the Company's taxable income and the Company would be subject to U.S. federal income tax at regular corporate rates;

the Company also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and

unless the Company is entitled to relief under applicable statutory provisions, the Company could not elect to be taxed as a REIT for four taxable years following a year during which the Company was disqualified.

In addition, if the Company loses its qualification as a REIT, the Company will not be required to make distributions to stockholders, and all distributions to the Company's stockholders will be subject to tax as regular corporate dividends to the extent of the Company's current and accumulated earnings and profits. This means that the Company's U.S. individual stockholders would be taxed on the Company's dividends at a maximum U.S. federal income tax rate of 15% (through 2010), and the Company's corporate stockholders generally would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions and regulations promulgated thereunder for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable U.S. Treasury Department regulations, or Treasury Regulations, that have been promulgated under the Code is greater in the case of a REIT that, like the Company, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within the Company's control may affect the Company's ability to qualify as a REIT. In order to qualify as a REIT, the Company must satisfy a number of requirements, including requirements regarding the composition of the Company's assets and sources of the Company's gross income. Also, the Company must make distributions to stockholders aggregating annually at least 90% of the Company's net taxable income, excluding capital gains.

As a result of these factors, the Company's loss of its qualification as a REIT also could impair the Company's ability to expand the Company's business and raise capital, and would adversely affect the value of the Company's common stock.

To maintain the Company REIT qualification, the Company may be forced to borrow funds during unfavorable market conditions.

To qualify as a REIT, the Company generally must distribute to the Company's stockholders at least 90% of the Company's net taxable income each year, excluding net capital gains, and the Company will be subject to regular corporate income taxes to the extent that the Company distributes less than 100% of the Company's net taxable income

each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by the Company in any calendar year are less than the sum of 85% of the Company's ordinary income, 95% of the Company's capital gain net income and 100% of the Company's undistributed income from prior years. In order to qualify as a REIT and avoid the payment of income and excise taxes, the Company may need to borrow funds on a short-term basis, or possibly on a long-term basis, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.



Dividends payable by REITs generally do not qualify for reduced tax rates.

The maximum tax rate for dividends payable by domestic corporations to individual U.S. stockholders is 15% (through 2010). Dividends payable by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including the Company's common stock.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of the Company's properties.

Possible legislative or other actions affecting REITs could adversely affect the Company and the Company's stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect the Company or the Company's stockholders. The Company cannot predict whether, when, in what forms, or with what effective dates, the tax laws applicable to the Company or the Company's stockholders will be changed.

Complying with REIT requirements may cause the Company to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, the Company must continually satisfy tests concerning, among other things, the sources of the Company's income, the nature and diversification of the Company's assets, the amounts the Company distributes to the Company's stockholders and the ownership of the Company's stock. In order to meet these tests, the Company may be required to forego attractive business or investment opportunities. Thus, compliance with the REIT requirements may adversely affect the Company's ability to operate solely to maximize profits.

The Company will pay some taxes.

Even if the Company qualifies as a REIT for U.S. federal income tax purposes, the Company will be required to pay some U.S. federal, state and local taxes on the Company's income and property. In addition, the Company's taxable REIT subsidiaries, Erdman, CSA LLC, and Consera are fully taxable corporations that will be subject to taxes on their income and such TRSs may be limited in their ability to deduct interest payments made to the Company or the Operating Partnership. The Company also will be subject to a 100% penalty tax on certain amounts if the economic arrangements among the Company's tenants, the Company's TRSs and the Company are not comparable to similar arrangements among unrelated parties or if the Company receives payments for inventory or property held for sale to customers in the ordinary course of business. To the extent that the Company or the Company's TRSs are required to pay U.S. federal, state or local taxes, the Company will have less cash available for distribution to the Company's stockholders.

The ability of the Board of Directors to revoke the Company REIT election without stockholder approval may cause adverse consequences to the Company's stockholders.

The Company's charter provides that the Board of Directors may revoke or otherwise terminate the Company REIT election, without the approval of the Company's stockholders, if it determines that it is no longer in the Company's best interests to continue to qualify as a REIT. If the Company ceases to qualify as a REIT, the Company would become subject to U.S. federal income tax on the Company's taxable income and the Company would no longer

be required to distribute most of the Company's taxable income to the Company's stockholders, which may have adverse consequences on the total return to the Company's stockholders.

The Company's ability to invest in TRSs is limited by its qualification as a REIT, and accordingly may limit its ability to grow the business of Erdman.

With respect to the Company's taxable year ended December 31, 2008 and prior taxable years, no more than 20% of the value of its assets may consist of securities of one or more TRSs. Commencing with the Company's taxable year ending December 31, 2009, the foregoing restriction on its ability to own securities of TRSs has increased to 25%. The Company has jointly elected with Erdman, to treat such entities as TRSs. The Company has also jointly elected with each of CSA, LLC and Consera Healthcare Real Estate, LLC to treat such entities as TRSs. Accordingly, the Company's ability to grow and expand the business of Erdman and its other TRSs, absent a corresponding increase in the value of its real estate assets, will be limited by its need to continue to meet the applicable TRS limitation which could adversely affect returns to its shareholders.

If the aggregate value of the securities the Company owns in its TRSs were determined to be in excess of 25% (20% with respect to our taxable year ended December 31, 2008) of the value of its total assets, the Company could fail to qualify as a REIT or be subject to a penalty tax and forced to dispose of TRS securities.

For the Company to continue to qualify as a REIT, the aggregate value of all securities that the Company holds in its TRSs may not exceed 25% (20% with respect to its taxable year ended December 31, 2008) of the value of its total assets. The value of its securities in TRSs and its real estate assets is based on determinations of fair market value which are not subject to precise determination. The Company will not lose its qualification as a REIT if the Company were to fail the TRS limitation at the end of a quarter because of a discrepancy between the value of its TRSs and its other investments unless such discrepancy exists after the acquisition of TRS securities and is wholly or partially the result of such acquisition (including as a result of an increased investment in existing TRSs, either directly, by way of a limited partner of its operating partnership exercising an exchange right, or by the Company raising additional capital and contributing such capital to its operating partnership). If the Company were to fail to satisfy the TRS limitation at the end of a particular quarter and it was considered to have acquired TRS securities during such quarter, it would fail to qualify as a REIT unless it cured such failure by disposing of TRS securities or otherwise came into compliance with the TRS limitation within 30 days after the close of such quarter. Based on such rules and the Company's determination of the fair market value of its assets and the securities of its TRS, the Company believes that the Company has satisfied and will continue to satisfy the TRS limitation. Notwithstanding the foregoing, as the fair market value of the Company's TRS securities and real estate assets cannot be determined with absolute certainty, and the Company does not control when a limited partner of its operating partnership will exercise its redemption right, no assurance can be given that the Internal Revenue Service ("IRS") will not successfully challenge the valuations of the Company's assets or that the Company met and will continue to meet the TRS limitation. In addition, if the value of the Company's real estate assets were to decrease, the Company's ability to own TRS securities or other assets not qualifying as real estate assets will be limited and the Company could be forced to dispose of its TRS securities or such other assets in order to comply with REIT requirements.

If the Internal Revenue Service were to successfully challenge its valuation of certain of its subsidiaries, the Company may fail to qualify as a REIT.

While the Company believes the Company has properly valued the securities the Company holds in Erdman and all of its taxable REIT subsidiaries, there is no guarantee that the Internal Revenue Service would agree with such valuation or that a court would agree with such determination by the Internal Revenue Service. In the event the Company has improperly valued the securities the Company holds in Erdman, the Company may fail to satisfy the 25% (20% with respect to its taxable year ended December 31, 2008 and prior taxable years) asset test which may result in its failure to qualify as a REIT.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2008, the Company owned and/or managed 116 MOB's and healthcare related facilities, 62 of which are consolidated wholly-owned and joint ventures, three of which are jointly owned with unaffiliated third parties and managed through a TRS, and 51 of which are managed for third parties through a TRS. MOB's typically contain suites for physicians and physician practice groups and also may include facilities that provide hospitals with ancillary and outpatient services, such as ambulatory surgery centers, imaging and diagnostic centers (offering diagnostic services not typically provided in physician offices or clinics), rehabilitation centers, kidney dialysis centers and cancer treatment centers. The Company's portfolio of owned and managed properties contains an aggregate of approximately 5.8 million net rentable square feet of as of December 31, 2008. As of December 31, 2008, the Company's 61 in-service, consolidated wholly-owned and joint venture properties were approximately 92.4% occupied with a weighted average remaining lease term of approximately 4.5 years, accounting for 95.7%, 94.7%, and 96.2% of total rental revenue and property management and other income for the years ended December 31, 2008, 2007, and 2006, respectively.

At December 31, 2008, 80.9% of the Company's consolidated wholly-owned and joint venture properties are located on hospital campuses, 11.8% are located off-campus but in which a hospital is the sole or anchor tenant, and 7.3% are off campus.

At December 31, 2008, no tenant occupied 10% or more of the net rentable square feet at the Company's properties.

The following table contains additional information about the Company's consolidated wholly-owned and joint venture properties as of December 31, 2008:

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Property	Location	Net Rentable Square Feet	Occupancy Rate	Annualized Rent	Annualized Rent Per Leased Square Foot
California					
Verdugo Professional Building I	Glendale	63,887	92.6%	\$ 1,812,088	\$ 30.64
Verdugo Professional Building II	Glendale	42,906	88.6%	1,213,656	31.92
		106,793	91.0%	3,025,744	31.14
Georgia					
Augusta POB I	Augusta	99,494	92.7%	1,265,312	13.71
Augusta POB II	Augusta	125,634	95.1%	2,582,154	21.60
Augusta POB III	Augusta	47,034	100.0%	926,246	19.69
Augusta POB IV	Augusta	55,134	88.9%	877,504	17.90
Summit Professional Plaza I	Brunswick	33,039	93.5%	808,505	26.18
Summit Professional Plaza II	Brunswick	64,233	96.7%	1,792,144	28.84
		424,568	94.4%	8,251,865	20.58
Indiana					
Methodist Professional Center I (3)	Indianapolis	150,035	99.0%	3,455,621	23.26
Methodist Professional Center II (sub-lease)	Indianapolis	24,080	100.0%	616,647	25.61
		174,115	99.2%	4,072,268	23.58
Kentucky					
Our Lady of Bellefonte	Ashland	46,907	95.9%	1,153,258	25.63
Adjacent parking deck				875,205	
		46,907	95.9%	2,028,463	25.63(2)
Louisiana					
East Jefferson Medical Office Building	Metairie	119,921	100.0%	2,551,870	21.28
East Jefferson Medical Plaza	Metairie	123,184	100.0%	2,787,654	22.63
East Jefferson Medical Specialty Building	Metairie	10,809	100.0%	968,693	89.62
		253,914	100.0%	6,308,217	24.84
New York					
Central New York Medical Center (4)	Syracuse	111,634	96.7%	2,960,608	27.42
North Carolina					
Barclay Downs	Charlotte	38,395	100.0%	843,386	21.97
Birkdale Medical Village	Huntersville	64,669	100.0%	1,405,737	21.74
Birkdale Retail	Huntersville	8,269	100.0%	214,442	25.93
Cabarrus POB	Concord	84,972	95.0%	1,808,948	22.41
	Concord	26,000	100.0%	589,518	22.67

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Copperfield Medical Mall					
Copperfield MOB	Concord	61,789	87.9%	1,250,799	23.04
East Rocky Mount Kidney Center	Rocky Mount	8,043	100.0%	165,956	20.63
Gaston Professional Center	Gastonia	114,956	100.0%	2,725,698	23.71
Adjacent parking deck				606,141	
Harrisburg Family Physicians Building	Harrisburg	8,202	100.0%	215,591	26.29
Harrisburg Medical Mall	Harrisburg	18,360	100.0%	471,708	25.69
Lincoln/Lakemont Family Practice Center	Lincolnton	16,500	100.0%	382,674	23.19
Mallard Crossing Medical Park	Charlotte	52,540	62.9%	825,306	24.97
Midland Medical Mall	Midland	14,610	100.0%	415,726	28.45
Mulberry Medical Park	Lenoir	24,992	85.4%	433,002	20.30
Northcross Family Medical Practice Building	Charlotte	8,018	100.0%	225,390	28.11
Randolph Medical Park	Charlotte	84,131	67.6%	1,213,739	21.34
Rocky Mount Kidney Center	Rocky Mount	10,105	100.0%	204,728	20.26
Rocky Mount Medical Office Building (1)	Rocky Mount	35,393	95.7%	871,907	25.75
Rocky Mount Medical Park	Rocky Mount	96,993	100.0%	1,956,518	20.17
Rowan Outpatient Surgery Center	Salisbury	19,464	100.0%	424,549	21.81
Weddington Internal & Pediatric Medicine	Concord	7,750	100.0%	189,977	24.51
		804,151	92.1%	17,441,440	22.74(2)
Pennsylvania Lancaster Rehabilitation Hospital	Lancaster	52,878	100.0%	1,320,404	24.97
Lancaster General Health Campus MOB (1)	Lancaster	64,214	93.1%	1,644,663	27.50
		117,092	96.2%	2,965,067	26.31

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South Carolina					
190 Andrews	Greenville	25,902	100.0%	598,580	23.11
Baptist Northwest	Columbia	38,703	41.3%	336,517	21.04
Beaufort Medical Plaza	Beaufort	59,340	100.0%	1,235,351	20.82
Carolina Forest	Myrtle Beach	38,902	43.5%	470,377	27.82
Mary Black Westside MOB	Spartanburg	37,455	100.0%	783,520	20.92
Medical Arts Center of Orangeburg	Orangeburg	49,324	92.9%	862,554	18.82
Mt. Pleasant MOB	Mt. Pleasant	38,735	77.4%	758,909	25.32
One Medical Park - HMOB	Columbia	69,840	80.3%	1,301,733	23.21
Parkridge MOB	Columbia	89,451	95.5%	2,024,819	23.69
Providence MOB I	Columbia	48,500	94.7%	980,985	21.37
Providence MOB II	Columbia	23,280	100.0%	469,446	20.17
Providence MOB III	Columbia	54,417	73.4%	870,217	21.77
River Hills Medical Plaza	Little River	27,566	100.0%	878,682	31.88
Roper MOB	Charleston	122,785	100.0%	2,502,921	20.38
St. Francis Community Medical Office Building	Greenville	45,140	100.0%	1,239,997	27.47
St. Francis Medical Office Building	Greenville	49,767	100.0%	1,058,037	21.26
St. Francis Medical Plaza	Greenville	62,724	63.5%	781,534	19.62
St. Francis Women's Center	Greenville	57,590	73.4%	868,506	20.56
Three Medical Park	Columbia	88,755	93.8%	1,903,798	22.86
West Medical I	Charleston	28,734	100.0%	777,309	27.05
		1,056,910	87.2%	20,703,792	22.47
Tennessee					
Healthpark Medical Office Building	Chattanooga	52,151	100.0%	1,906,526	36.56
Peerless Medical Center	Cleveland	40,506	100.0%	1,183,991	29.23
		92,657	100.0%	3,090,517	33.35
Virginia					
Hanover Medical Office Building I	Mechanicsville	56,610	96.6%	1,491,672	27.27
St. Mary's Medical Office Building North	Richmond	30,617	90.1%	689,445	25.00
		87,227	94.3%	2,181,117	26.51
Total		3,275,968	92.4%	73,029,098	\$ 23.64(2)

- (1) Consolidated real estate partnership.
- (2) Excludes annualized rent of adjacent parking decks to Our Lady of Bellefonte and Gaston Professional Center from calculation.
- (3) Parking revenue from an adjacent parking deck is approximately \$96,000 per month, or \$1,152,000 annualized.
- (4)



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Parking revenue from an adjacent parking deck is approximately \$100,000 per month, or \$1,200,000 annualized.

Future lease expirations by tenants by year under non-cancelable operating leases as of December 31, 2008, were as follows (dollars in thousands, except per leased square foot amounts):

	Number of Leases Expiring	Net Rentable Square Feet	Percentage of Net Rentable Square Feet	Annualized Rent	Percentage of Property Annualized Rent	Annualized Rent Per Leased Square Foot
Available	—	248,864	7.6%	\$ —	—	\$ —
2009	143	437,722	13.4%	9,912	13.6%	22.64
2010	113	455,382	13.9%	10,101	13.8%	22.18
2011	81	303,982	9.3%	6,841	9.4%	22.51
2012	125	593,286	18.1%	15,586	21.3%	23.77(1)
2013	70	321,540	9.8%	6,895	9.4%	21.44
2014	46	258,453	7.9%	6,210	8.5%	24.03
2015	24	78,875	2.4%	1,965	2.7%	24.91
2016	11	53,007	1.6%	1,192	1.6%	22.49
2017	32	227,859	7.0%	6,366	8.7%	27.94
2018	10	43,181	1.3%	1,059	1.5%	24.52
Thereafter	16	253,817	7.7%	6,902	9.5%	27.19
Total	671	3,275,968	100.0%	\$ 73,029	100.0%	\$ 23.64(1)

(1) Excludes annualized rent of adjacent parking decks to Our Lady of Bellefonte and Gaston Professional Center from calculation.

## Joint Venture Properties

As of December 31, 2008, the Company has an investment in an unconsolidated real estate partnership that owns three buildings. The following table provides additional information about the Company's unconsolidated joint venture properties as of December 31, 2008:

Property	City, State	Year Built	Net Rentable Square Feet	Occupancy Rate	Annualized Rent	Annualized Rent Per Leased Square Foot	Ownership Percentage	Debt Balance	Associated Healthcare System
McLeod MOB East (2)	Florence, SC	1993	127,458	93.2%	\$ 1,971,897	\$ 16.60	1.1%	\$ (1)	McLeod Regional Medical Center
McLeod Pee Dee Medical Park (2)	Florence, SC	1982	33,756	100.0	549,420	16.28	1.1	(1)	McLeod Regional Medical Center
McLeod MOB West (2)	Florence, SC	1986	52,574	97.9	737,365	14.33	1.1	(1)	McLeod Regional Medical Center
Total			213,788		\$ 3,258,682			\$ 12,497,770 <sup>(2)</sup>	

(1) Amounts are for the entity, not just the Company's interest in the real estate joint venture.

(2) Total debt of \$12.5 million is secured by all three properties listed.

The Company has a 2.0% ownership in Shannon Health/MOB Limited Partnership No. 1 and a 2.0% ownership in BSB Health/MOB Limited Partnership No. 2. These ownership interests were assumed as part of the Consera acquisition (See Note 4 to the accompanying Notes to Consolidated and Combined Financial Statements). The partnership agreements and tenant leases of the limited partners are designed to give preferential treatment to the limited partners as to the operating cash flows from the partnerships. The Company, as the general partner, does not generally participate in the operating cash flows from these entities other than to receive property management fees. The limited partners can remove the Company as the property manager and as the general partner. Due to the structures of the partnership agreements and tenant lease agreements, the Company reports the properties owned by these two joint ventures as fee managed properties owned by third parties.

## Item 3. Legal Proceedings

The Company is, from time to time, involved in routine litigation arising out of the ordinary course of business or which is expected to be covered by insurance and which is not expected to harm the Company's business, financial condition or results of operations. The Company is not, however, involved in any material litigation nor, to its

knowledge, is any material litigation pending or threatened against the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote by security holders during the fourth quarter of 2008.

PART II

Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company’s common stock trades on the New York Stock Exchange (“NYSE”) under the symbol “CSA.” The following table sets forth, for the period indicated, the high and low sales price for the Company’s common stock as reported by the NYSE and the per share dividends declared:

Period	High	Low	Dividends Declared
2007			
First Quarter	\$ 22.82	\$ 20.62	\$ 0.35
Second Quarter	\$ 21.64	\$ 19.51	\$ 0.35
Third Quarter	\$ 20.43	\$ 16.20	\$ 0.35
Fourth Quarter	\$ 19.39	\$ 15.03	\$ 0.35
2008			
First Quarter	\$ 17.18	\$ 14.66	\$ 0.35
Second Quarter	\$ 18.89	\$ 15.36	\$ 0.35
Third Quarter	\$ 19.93	\$ 16.04	\$ 0.35
Fourth Quarter	\$ 16.17	\$ 6.91	\$ 0.225

On March 12, 2009, the closing price of the Company's common stock as reported by the NYSE was \$5.25. At March 12, 2009, the Company had 131 holders of record of its Common Stock.

Holders of shares of Common Stock are entitled to receive distributions when and if declared by the Board of Directors out of any assets legally available for that purpose. As a REIT, the Company is required to distribute at least 90% of its "REIT taxable income" (computed without regard to the dividends paid deduction or net capital gains) to shareholders annually in order to maintain the Company's REIT qualification for U.S. federal income tax purposes. The Company's Credit Facility includes limitations on the Company's ability to make distributions to its stockholders, subject to complying with REIT requirements.

As disclosed in the table above, during 2008 the Company paid four quarterly dividends of \$0.35 per share, totaling \$1.40 per share for the year. The Company funded the dividend payments for 2008 through a combination of funds from operations and borrowings under the Credit Facility. The Company uses borrowings available under the Credit Facility to fund dividend payments when the timing of the Company's cash flows from operations is insufficient to meet the dividend payments. The dividend payments of \$1.40 per share paid in 2008 are classified for income tax purposes as 27.9% taxable ordinary dividend, 15.7% "qualified dividends" eligible for the reduced rates on dividends pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003, and 56.4% return of capital.

The Company has reserved 1,000,000 shares of common stock for issuance under its 2005 long-term incentive plan.

As of December 31, 2008, there were 26,945,304 OP units outstanding, of which 17,699,201, or 65.7%, were owned by the Company and 9,246,103, or 34.3%, were owned by other partners (including certain directors and senior management).

#### Stockholder Return Performance

Prior to October 27, 2005, the Company was not publicly traded and there was no public market for the Company's securities. The following graph compares the cumulative total return on the Company's common stock with that of the Standard and Poor's 500 Stock Index ("S&P 500 Index") and the National Association of Real Estate Investment Trusts Equity Index ("NAREIT Equity Index") from October 27, 2005 (the date that the Company's common stock began to trade publicly) through December 31, 2008. The stock price performance graph assumes that an investor invested \$100 in each of the Company and the indices, and the reinvestment of any dividends. The comparisons in the graph are provided in accordance with the SEC disclosure requirements and are not intended to forecast or be indicative of the future performance of the Company's shares of common stock.

Index	Period Ending				
	10/27/05	12/31/05	12/31/06	12/31/07	12/31/08
Cogdell Spencer Inc.	100.00	100.79	137.24	109.70	68.45
NAREIT Equity	100.00	103.57	139.39	117.94	73.44
S&P 500	100.00	106.30	123.09	129.86	81.81

Except to the extent that we specifically incorporate this information by reference, the foregoing Stockholder Return Performance information shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended (the “Securities Act”), or under the Securities Exchange Act of 1934, as amended. This information shall not otherwise be deemed filed under such acts.

#### Unregistered Sales of Equity Securities and Use of Proceeds

Pursuant to a Purchase Agreement, dated January 23, 2008 (the “Purchase Agreement”), among the Company, the Operating Partnership and KeyBanc Capital Markets Inc. (the “Initial Purchaser”), the Company sold 3,448,278 shares of common stock, par value \$.01 per share, to the Initial Purchaser in a private offering. The Initial Purchaser purchased the securities with a view to the private resale of the securities to certain institutional investors at a price of \$15.95 per share. The securities were issued to the Initial Purchaser pursuant to an exemption from registration under Section 4(2) of the Securities Act and Regulation D promulgated thereunder and resold to the institutional investors pursuant to an exemption from registration pursuant to Rule 144A of the Securities Act.

The Company received net proceeds of approximately \$53.8 million from the private offering. The Company used the net proceeds from the private offering to reduce borrowings under its Credit Facility.

In connection with the private offering, the Company entered into a Registration Rights Agreement (the “Registration Rights Agreement”) with the initial purchase on behalf of the holders of the securities named therein pursuant to which the Company agreed to prepare and file with the SEC a shelf registration statement providing for the resale of the securities and to cause such shelf registration statement to be declared effective by the SEC on the terms and subject to the conditions specified in the registration agreement.

On March 10, 2008, June 13, 2008, and November 5, 2008, the Operating Partnership issued an aggregate of 4,331,336, 208,496, and 148,926, respectively of OP units, having an aggregate value of \$68.6 million, \$3.3 million, and \$2.4 million, respectively, at the time of issuance, related to the acquisition of Erdman. These OP units were issued in exchange for ownership interests in Erdman as part of a private placement transaction under Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder. These OP units are redeemable for the cash equivalent thereof at a time one year after the date of issuance, or, at the option of the Company, exchangeable into shares of common stock in the Company on a one-for-one basis. No underwriters were used in connection with this issuance of these OP units.

#### Issuer Purchases of Equity Securities

Below is a summary of equity repurchases by month for the quarter ended December 31, 2008:

For the Period	Total Number of Equity Securities Purchased	Average Price Paid Per Equity Security	Total Number of Equity Securities Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Equity Securities that May Yet Be Purchased Under the Plan
October 1 - October 31, 2008	—	\$ —	N/A	N/A
November 1 - November 30, 2008	—	—	N/A	N/A
December 1 - December 31, 2008	1,881	8.78	N/A	N/A
Total	1,881	\$ 8.78	N/A	N/A

These figures only relate to repurchases of OP units. The Company did not repurchase shares of common stock during the quarter ended December 31, 2008.

#### Equity Compensation Plan Information

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Columns (a))
	N/A(1)	N/A	392,960

Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders			
Total	N/A (1)	N/A	392,960

(1) These amounts include information related to the Company’s 2005 Long-term Incentive Plan. As of December 31, 2008, the Company issued 68,370 shares of restricted stock and 538,670 Long-term Incentive Plan (“LTIP”) units under this plan.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial and operating data on an historical basis for the Company. The following table should be read in conjunction with the Financial Statements and notes thereto included in Item 8, “Financial Statements and Supplementary Data” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K.

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	Company			Predecessor		
	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006	November 1, 2005 - December 31, 2005	January 1, 2005 - October 31, 2005	For the year ended December 31, 2004
(In thousand, except per share amounts)						
Statements of Operations Data:						
Rental revenue	\$ 77,799	\$ 63,029	\$ 52,746	\$ 7,006	\$ 35,794	\$ 40,440
Design-Build contract revenue and other sales	253,596	-	-	-	-	-
Total revenues	335,740	66,821	54,956	7,321	37,809	43,644
Property operating and management expenses	31,376	25,704	19,848	2,583	13,058	14,756
Costs related to design-build contract revenue and other sales	214,019	-	-	-	-	-
Selling, general, and administrative expenses	30,215	7,365	6,261	7,791	5,129	3,075
Income (loss) from continuing operations before other income (expense), income tax (expense) benefit, minority interests, and discontinued operations	15,114	5,994	(1,426)	(7,178)	11,178	16,252
Interest expense	(25,159)	(15,964)	(14,199)	(1,500)	(8,222)	(9,024)
Net income (loss)	(5,773)	(6,341)	(9,097)	(5,600)	3,824	8,044
Per Share:						
Declared dividend	\$ 1.275	\$ 1.40	\$ 1.40	\$ 0.23		
Loss from continuing operations - basic and diluted	\$ (0.37)	\$ (0.57)	\$ (1.17)	\$ (0.70)		
Net loss - basic and diluted	\$ (0.37)	\$ (0.57)	\$ (1.14)	\$ (0.70)		
Weighted average shares - basic and diluted	15,770 23,996	11,056 15,621	7,975 12,590	7,972 12,197		



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Weighted average  
shares and OP units -  
basic

Weighted average  
shares and OP units -  
diluted

24,098                      15,637                      12,612                      12,225

Selected Balance  
Sheet Data (as of the  
end of the period):

Assets:

Real estate

properties, net	\$ 477,961	\$ 455,063	\$ 351,172	\$ 257,144		\$ 155,376
Other assets, net	422,129	51,174	41,886	51,338		23,049
Total assets	\$ 900,090	\$ 506,237	\$ 393,058	\$ 308,482		\$ 178,425

Liabilities and  
stockholders' equity  
or owners' deficit:

Mortgages, credit  
facility, and term  
debt

	\$ 465,236	\$ 316,704	\$ 262,031	\$ 158,974		\$ 213,536
Other liabilities, net	151,860	27,277	17,351	9,022		11,316
Minority interests	94,045	47,221	54,001	62,018		-
Stockholders' equity	188,949	115,035	59,675	78,468		(46,427)
Total liabilities and stockholders' equity or owners' deficit	\$ 900,090	\$ 506,237	\$ 393,058	\$ 308,482		\$ 178,425

Cash Flow Data:

Net cash provided by  
operating activities

	\$ 24,747	\$ 23,796	\$ 15,900	\$ 1,635	\$ 10,312	\$ 16,089
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Net cash used in  
investing activities

	\$ (194,284)	\$ (117,298)	\$ (103,587)	\$ (27,462)	\$ (5,939)	\$ (13,767)
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Net cash provided by  
(used in) financing  
activities

	\$ 200,650	\$ 96,055	\$ 78,932	\$ 35,398	\$ (5,863)	\$ 1,880
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Other Data:

Funds from

operations (1)	\$ 21,380	\$ 18,259	\$ 15,037	\$ 4,518	\$ 12,303	\$ 17,656
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Funds from

operations modified

(1)	\$ 29,363	\$ 18,362	\$ 15,089	\$ 4,518	\$ 12,303	\$ 17,656
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- (1) FFO is a supplemental non-GAAP financial measure used by the real estate industry to measure the operating performance of real estate companies. The Company adjusts the NAREIT definition to add back minority interests in the Operating Partnership. FFOM adds back to traditionally defined FFO non-cash amortization of non-real estate related intangible assets associated with purchase accounting. The Company presents FFO and FFOM because it considers them important supplemental measures of operational

performance. The Company believes FFO is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing a perspective not immediately apparent from net income. The Company computes FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO and FFOM do not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations, or other commitments and uncertainties. FFO and FFOM should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of the Company's performance, nor are they indicative of funds available to fund its cash needs, including its ability to pay dividends or make distributions.

The following table presents the reconciliation of FFO and FFOM to net income (loss), which is the most directly comparable GAAP measure to FFO and FFOM (in thousands):

	Company			Predecessor		
	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006	November 1, 2005 - December 31, 2005	January 1, 2005 - October 31, 2005	For the year ended December 31, 2004
Funds from operations:						
Net income (loss)	\$ (5,773)	\$ (6,341)	\$ (9,097)	\$ (5,600)	\$ 3,824	\$ 8,044
Minority interests in operating partnership	(3,048)	(2,738)	(5,058)	(3,055)	-	-
Real estate related depreciation and amortization (1)	30,201	27,338	30,110	4,137	8,479	9,612
Gain on sale of real estate properties	-	-	(919)	-	-	-
Funds from operations	21,380	18,259	15,036	(4,518)	12,303	17,656
Amortization of intangibles related to purchase accounting, net of income tax benefit	7,983	103	53	-	-	-
Funds from operations modified	\$ 29,363	\$ 18,362	\$ 15,089	\$ (4,518)	\$ 12,303	\$ 17,656

- (1) Real estate depreciation and amortization consists of depreciation and amortization from wholly-owned real estate properties and the Company's share of real estate depreciation and amortization from consolidated and unconsolidated real estate partnerships.

Item 7. Management 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 elsewhere in this Annual Report on Form 10-K. The Company makes statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Annual Report on Form 10-K entitled "Statements Regarding Forward-Looking Information." 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 in this Annual Report on Form 10-K entitled "Risk Factors."

Overview

The Company is a fully-integrated, self-administered, and self-managed REIT that invests in specialty office buildings for the medical profession, including medical offices and ambulatory surgery and diagnostic centers. The Company focuses on the ownership, development, redevelopment, acquisition, and management of strategically located medical office buildings and other healthcare related facilities in the United States of America. The Company provides services from strategic planning to long-term property ownership and management. Integrated delivery service offerings include architecture, engineering, construction and capital project development. The Company has been built around understanding and addressing the specialized real estate needs of the healthcare industry.

On March 10, 2008, the Company acquired Erdman. Erdman is a leading design-builder of healthcare facilities with specialized expertise and concentration in high growth healthcare market segments and facility types. Erdman has successfully cultivated a client mix that is diversified in both geography and market focus and includes physician group practices and healthcare systems. Erdman was ranked as the number one healthcare design-build firm for 2007 by Modern Healthcare's 2008 Construction and Design Survey. As of December 31, 2008, the Company has completed the integration process with Erdman. The combination is transformative for the Company creating a national, fully integrated healthcare facilities company.

The \$246.8 million Erdman transaction was financed through \$20.5 million of assumed cash, a \$100.0 million Term Loan, a \$75.3 million, inclusive of escrow amount, rollover of equity held by Erdman shareholders and members of its management team, and \$51.0 million, inclusive of escrow amount in cash, from the Company's \$150.0 million secured Credit Facility.

In addition to the Erdman equity rollover, the Company completed two offerings of common stock during 2008. The first, a private placement completed in January 2008, raised \$53.8 million, after costs, and the second, a public offering completed in September 2008, raised \$37.4 million, after costs. The net proceeds from these offerings were used to reduce outstanding principal on the Credit Facility and for working capital purposes.

The Company acquired two off-market properties in 2008, totaling \$24.4 million, which were the result of strong relationships with existing clients. The Company completed one development project during 2008, with a total investment of approximately \$16.0 million, and has three projects under construction with an expected total investment of approximately \$84.8 million.

One of the projects under construction is The Woodlands Center for Specialized Medicine. This project, located in Pensacola, Florida, is the first project utilizing the Company's integrated delivery model. The Company's strategic planning team worked with the client to develop a comprehensive strategy to meet the client's healthcare delivery needs. The Company's capital team worked with the client to determine the optimum ownership and financing strategy to meet their needs. Upon completion, the Company will be the 40% consolidating joint venture partner and the building's physician tenants will be the 60% limited partners. Erdman is providing project delivery services, including

development, design, and construction. Cogdell Spencer Advisors, a subsidiary of the Operating Partnership, is the property manager for the building.

During 2008, the Company formed a joint venture with Northwestern Mutual. The joint venture, Cogdell Spencer Medical Partners LLC, may acquire up to approximately \$350.0 million of medical office buildings and other healthcare facilities nationwide, predominantly associated with not-for-profit healthcare systems and large physician-owned clinics. The joint venture will be the Company's exclusive vehicle for cash acquisitions. When the joint venture closes on a specific acquisition, the Company will contribute 20% of the equity capital to fund the acquisition. The Company expects the joint venture will obtain mortgage financing on market terms for its acquisitions, which mortgage financing may come from the joint venture partner. As of December 31, 2008, the joint venture did not have any acquisitions under contract that the Company expects to go forward.

The Company derives a majority of its revenues from two sources: (1) rents received from tenants under existing leases in MOB's and other healthcare related facilities, and (2) from design-build services for healthcare customers. The Company expects that rental revenue will remain stable due to multi-year, non-cancellable leases with annual rental increases based on CPI. The Company's design-build revenue is derived from its Erdman subsidiary. The demand for Erdman's services has been, and will likely continue to be, cyclical in nature. In periods of adverse economic conditions, Erdman's customers may be unwilling or unable to make capital expenditures, and they may be unable to obtain debt or equity financings for projects. As a result, customers may defer projects to a later date, which could reduce Erdman's revenues. Due to the current economic environment and the volatility in the credit markets, Erdman is experiencing delays in client project starts and cancellations. As a result, the Company expects its design-build revenue in 2009 to be less than 2008 revenue. As a result, the Company implemented a cost reduction program and in December 2008, Erdman effected a reduction in force in order to right-size the organization for contracted 2009 revenues and eliminated approximately 115 jobs.

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

As of December 31, 2008, the Company owned and/or managed 116 medical office buildings and healthcare related facilities, totaling 5.8 million net rentable square feet and serving 24 hospital systems in 13 states. The Company's portfolio consists of:

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

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

51 properties, comprised of 2.3 million net rentable square feet, that the Company manages for third parties.

As of December 31, 2008, of the Company's wholly-owned properties, 80.9% were located on hospital campuses and an additional 7.3% were located off-campus, but were hospital anchored. The Company believes that its on-campus and hospital anchored assets occupy a premier franchise location in relation to local hospitals, providing the Company's properties with a distinct competitive advantage over alternative medical office space in an area. As of December 31, 2008, the Company's 61 in-service, consolidated wholly-owned and joint venture properties were approximately 92.4% occupied, with a weighted average remaining lease term of approximately 4.5 years. One property was in lease-up at December 31, 2008.

#### Critical Accounting Policies

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



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

#### Acquisition of Real Estate

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

#### Acquisition of Business

The price that the Company pays to acquire a business is impacted by many factors, including projected future cash flows, customer lists, contracts and proposals, trade names and trademarks, condition of property, plant, and equipment, and numerous other factors. Accordingly, the Company is required to make subjective assessments to allocate the purchase price paid to acquire investments in business among the assets acquired and liabilities assumed based on the Company's estimate of the fair values of such assets and liabilities. This includes determining the value of contacts, proposals, customer lists, workforce, trade names and trademarks, receivables, accruals and reserves, and property, plant, and equipment. Each of these estimates requires significant judgment and some of the estimates involve complex calculations. The Company's calculation methodology is summarized in Note 2 to the accompanying consolidated financial statements included in this Annual Report on Form 10-K. These allocation assessments have a direct impact on the Company's results of operations because if the Company were to allocate more value to goodwill or a non-amortizing intangible asset there would be no amortization with respect to such amount or if the Company were to allocate more value to a longer-lived asset as opposed to allocating to shorter-lived asset, this amount would be recognized as an expense over a longer period of time.



## Useful Lives of Assets

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

## Asset Impairment Valuation

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

The Company reviews the value of goodwill assets using an income approach and market approach on an annual basis and when circumstances indicate a potential impairment may exist. No impairment losses have been recognized to date. The Company's methodology to review goodwill impairment, which includes a significant amount of judgment and estimates, provides a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether or not goodwill is impaired are outside of the Company's control and it is likely that assumptions and estimates will change in future periods. These changes can result in future impairments.

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

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

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

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

#### Revenue Recognition

Rental income related to non-cancelable operating leases is recognized using the straight line method over the terms of the tenant leases. Deferred rents included in the Company's consolidated balance sheets represent the aggregate excess of rental revenue recognized on a straight line basis over the rental revenue that would be recognized under the cash flow received, based on the terms of the leases. The Company's leases generally contain provisions under which the tenants reimburse the Company for all property operating expenses and real estate taxes incurred by the Company. Such reimbursements are recognized in the period that the expenses are incurred. Lease termination fees are recognized when the related leases are canceled and the Company has no continuing obligation to provide

services to such former tenants. As discussed above, the Company recognizes amortization of the value of acquired above or below market tenant leases as a reduction of rental income in the case of above market leases or an increase to rental revenue in the case of below market leases.

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

The Company receives fees for property management and development and consulting services from time to time from third parties which are reflected as fee revenue. Management fees are generally based on a percentage of revenues for the month as defined in the related property management agreements. Revenue from development and consulting agreements is recognized as earned per the agreements. Due to the amount of control retained by the Company, most joint venture developments will be consolidated; therefore, those development fees will be eliminated in consolidation. However, the joint venture with Northwestern Mutual, Cogdell Spencer Medical Partners LLC, is an unconsolidated entity.

Other income shown in the statement of operations generally includes interest income, primarily from the amortization of unearned income on a sales-type capital lease recognized in accordance with Statement of Financial Accounting Standards No. 13, and other income incidental to the Company's operations and is recognized when earned.

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

#### REIT Qualification Requirements

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

#### Changes in Financial Condition

On January 23, 2008, the Company issued 3,448,278 shares of common stock to certain institutional investors at a price of \$15.95 per share resulting in net proceeds to the Company of approximately \$53.8 million. On September 10, 2008, the Company issued 2,160,000 shares of common stock in a public offering at a price of \$18.50 per share resulting in net proceeds to the Company of approximately \$37.4 million. The net proceeds of both offerings were used to reduce outstanding principal on the Company's Credit Facility and for working capital purposes. For more information on the Credit Facility, see "Liquidity and Capital Resources."

As discussed in Note 4 and Note 9 to the accompanying consolidated financial statements, the Company completed the Merger with Erdman, amended the Credit Facility, and obtained \$100.0 million in term debt.

#### Results of Operations

The Company's loss from operations is generated primarily from operations of its properties and design-build services. The changes in operating results from period to period reflect changes in existing property performance, changes in the number of properties due to the development, acquisition, or disposition of properties, and the operating results of the design-build segment.

The Company acquired Erdman in March 2008 and results for the year ended December 31, 2008, reflect ten months of operating activity related to the Erdman subsidiary, reflecting operations from the acquisition date to year end.

### Business Segments

The Company has two identified reportable segments: (1) property operations and (2) design-build and development. The Company defines business segments by their distinct customer base and service provided. Each segment operates under a separate management group and produces discrete financial information, which is reviewed by the chief operating decision maker to make resource allocation decisions and assess performance. For additional information, see Note 6 of the accompanying consolidated financial statements.

### Property Summary

The following is an activity summary of the Company's property portfolio (excluding unconsolidated real estate partnerships) for the years ended December 31, 2008 and 2007:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Properties at January 1	59	51
Acquisitions	2	5
Developments	1	3
Properties at December 31	62	59

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

A property is considered "in-service" upon the earlier of (1) lease-up and substantial completion of tenant improvements, or (2) one year after cessation of major construction. For portfolio and operational data, a single in-service date is used. For GAAP reporting, a property is placed into service in stages as construction is completed and the property and tenant space is available for its intended use. The Company had one property in lease-up at December 31, 2008.

Year ended December 31, 2008 compared to year ended December 31, 2007

### FFOM

FFOM increased \$11.0 million, or 59.9%, from \$18.4 million to \$29.4 million for the years ended December 31, 2007 and 2008, respectively. The increase in FFOM was due to: (1) \$19.6 million increase in FFOM for the design-build and development segment, of which the majority of the segment's increase was due to the inclusion of ten months of Erdman's operating activity for the year ended December 31, 2008; and (2) \$7.9 million increase in FFOM from property acquisitions and completed developments. These increases in FFOM were offset by a \$9.2 million increase in interest expense due to increased outstanding debt balances, \$3.7 million income tax expense primarily related to FFOM at Erdman, a \$0.9 million minority interest charge, a \$3.5 million increase in corporate general and administrative expenses primarily due to increased incentive compensation expense, severance expense, and professional fees, and a \$1.2 million increase in non-real estate related depreciation related to corporate property, plant, and equipment. The \$0.9 million minority interest charge is due to a consolidated real estate partnership's negative partner's equity that resulted primarily from: (1) a debt refinance proceeds cash distribution to the 65.5% owner, and (2) subsequent cash distributions to the 65.5% owner. In accordance with GAAP, the consolidating partner is required

to record a charge to minority interest for distributions and GAAP net losses when the partnership's partners' equity is negative.

See Note 6 to the accompanying consolidated financial statements for business segment information and management's use of FFO and FFOM to evaluate operating performance. The following table presents the reconciliation of net loss to FFO and FFOM, which is the most directly comparable GAAP measure to FFO and FFOM, for the year ended December 31, 2008 and 2007 (in thousands):

	For the Year Ended	
	December 31, 2008	December 31, 2007
Net loss	\$ (5,773)	\$ (6,341)
Plus minority interests in operating partnership	(3,048)	(2,738)
Plus real estate related depreciation and amortization	30,201	27,338
Funds from Operations (FFO)	21,380	18,259
Plus amortization of intangibles related to purchase accounting, net of income tax benefit	7,983	103
Funds from Operations Modified (FFOM)	\$ 29,363	\$ 18,362

#### Revenue

Rental revenue increased \$14.8 million, or 23.4%, from \$63.0 million to \$77.8 million for the years ended December 31, 2007 and 2008, respectively. Rental revenue from current year acquisition properties and completed developments increased \$13.6 million, or 279.0%, from \$4.9 million to \$18.5 million for the years ended December 31, 2007 and 2008, respectively. Same-property revenue increased \$1.2 million, or 2.0%, primarily due to general increases in rent related to CPI escalation clauses and increased rent from reimbursable expenses, offset by a small reduction in occupancy. The small reduction in occupancy caused same-property revenue to increase at a smaller percentage rate than same-property operating and management expense, as described below.

Revenue from property management and other fees for 2008 remained consistent with 2007.

Design-Build contract revenue and other sales revenue increased from zero to \$253.6 million due to the ten month inclusion of Erdman's operating results for the year ended December 31, 2008. Erdman was acquired in March 2008.

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

#### Expenses

Property operating and management expenses increased \$5.7 million, or 22.1%, from \$25.7 million to \$31.4 million for the years ended December 31, 2007 and 2008, respectively. Property operating and management expenses related to acquisition properties and completed developments increased \$4.6 million. Same-property property operating and management expenses increased \$1.0 million, or 4.3%, primarily due to increases in reimbursable expenses such as property taxes, insurance, and utilities.

Costs related to design-build contract revenue and other sales revenue increase from zero to \$214.0 million due to the ten month inclusion of Erdman's operating results for the year ended December 31, 2008. Erdman was acquired in March 2008.



Selling, general, and administrative expenses increased \$22.9 million, or 310.3%. An increase of \$19.3 million was due to the ten month inclusion of Erdman's operating results for the year ended December 31, 2008. Erdman's operating results include a \$1.5 million expense resulting from restructuring and severance charges associated with the Company announcing a reduction in force. In addition to the additional Erdman expenses, the Company had increased expenses of \$3.6 million in corporate general and administrative expenses primarily due to \$1.4 million in increased accrued incentive compensation expense, \$0.4 million in severance compensation, and a \$0.5 million increase in legal and consulting professional fees.

Depreciation and amortization expense increased \$17.3 million, or 62.2%. There was an increase of \$12.9 million related to the amortization of Erdman intangible assets and an increase of \$1.2 million related to the depreciation of Erdman corporate property, plant, and equipment. Depreciation and amortization related to acquisition properties and completed developments increased \$4.8 million. Same-property depreciation and amortization decreased \$1.6 million.

### Interest expense

Interest expense increased \$9.2 million, or 57.6%. The increase was due to an increase in outstanding debt balances offset by a lower weighted average interest rate. The weighted average interest rate at December 31, 2008 was 4.8% compared to 6.2% at December 31, 2007.

### Income tax (expense) benefit

The income tax benefit for the year ended December 31, 2008 was primarily related to the operating activity for Erdman, a TRS. The benefit is primarily a result of the deferred tax benefit exceeding current income tax expense. The deferred tax benefit is primarily related to the amortization of intangible assets. The income tax expense in 2007 was due to taxable net income computed in accordance with SFAS No. 109, "Accounting for Income Taxes" for CSA LLC, which was a result of development fees, a non-recurring brokerage commission, and property management activities.

### Cash Flows

Cash provided by operating activities was \$24.7 million and \$23.8 million for the years ended December 31, 2008 and 2007, respectively. The increase in cash provided by operating activities was \$1.0 million, which resulted from an \$14.7 million increase in earnings before non-cash adjustments offset by a \$13.7 million net decrease due to changes in operating assets and liabilities. The \$17.2 million net decrease due to changes in operating assets and liabilities was a result of: 1) \$9.6 million paid to Erdman personnel in March 2008 for fiscal year 2007 annual bonuses, profit sharing, and 401(k) employer matching, 2) \$20.1 million decrease in billings in excess of costs and estimated earnings on uncompleted contracts; offset by \$12.5 million in cash provided due to various changes in operating assets, accrued expenses, accrued incentive compensation, and prepaid rent accounts. The Company accrued the \$9.6 million for the Erdman fiscal year 2007 performance bonus payments as part of the Erdman purchase price allocation and the amount was included in the Erdman merger working capital calculation.

Cash used in investing activities was \$194.3 million and \$117.3 million for the years ended December 31, 2008 and 2007, respectively. In the year ended December 31, 2008, the Company paid cash, net of cash assumed, of \$145.0 million (of which \$10.9 million related to an escrowed amount that was included in the restricted cash increase) related to the Erdman business acquisition as well as \$45.5 million related to property acquisitions and capital expenditures. In the year ended December 31, 2007, the Company's investment in real estate properties was related to development projects and the acquisition of five properties.

Cash provided by financing activities was \$200.7 million and \$96.1 million for the years ended December 31, 2008 and 2007, respectively. For the year ended December 31, 2008, the Company received \$91.2 million, net of costs, from the issuance of common stock and the proceeds were used to reduce outstanding amounts payable on the Credit Facility. Also, during the year ended December 31, 2008, the Company received proceeds of \$100.0 million from the Term Loan and \$145.0 million from the Credit Facility, which were primarily used to fund the Erdman transaction and property acquisitions as well as maintain a higher cash balance at year end. For the year ended December 31, 2007, the Company received proceeds of \$78.4 million, net of costs, related to the issuance of common stock and the proceeds were used to reduce outstanding amounts payable on the Credit Facility.

Year ended December 31, 2007 compared to year ended December 31, 2006

### FFOM

FFOM increased \$3.3 million, or 21.7%, from \$15.1 million to \$18.4 million for the years ended December 31, 2006 and 2007, respectively. The increase in FFOM was due to a \$5.8 million increase in FFOM from property

acquisitions, completed developments, and the acquisition of Consera offset by a \$1.8 million increase in interest expense and \$0.7 million increase in corporate general and administrative expenses primarily due to increased personnel costs.

See Note 6 to the accompanying consolidated financial statements for business segment information and management's use of FFO and FFOM to evaluate operating performance. The following table presents the reconciliation of FFO and FFOM to net loss, which is the most directly comparable GAAP measure to FFO and FFOM, for the year ended December 31, 2007 and 2006 (in thousands):

	For the Year Ended	
	December	December 31,
	31,	2006
	2007	
Net loss	\$ (6,341)	\$ (9,097)
Plus minority interests in operating partnership	(2,738)	(5,058)
Plus real estate related depreciation and amortization	27,338	30,110
Gain on sale of real estate properties	—	(919)
Funds from Operations (FFO)	18,259	15,036
Plus amortization of intangibles related to purchase accounting, net of income tax benefit	103	53
Funds from Operations Modified (FFOM)	\$ 18,362	\$ 15,089

#### Revenue

Rental revenue increased \$10.3 million, or 19.5%, from \$52.7 million to \$63.0 million for the years ended December 31, 2006 and 2007, respectively. Rental revenue from acquisition properties and completed developments increased \$9.3 million. Same-property revenue increased \$1.0 million, or 2.3%, primarily due to general increases in rent related to CPI escalation clauses, offset by a reduction in occupancy.

Property management and other fees increased \$1.4 million, or 68.6%, from \$2.1 million to \$3.5 million for the years ended December 31, 2006 and 2007, respectively. This increase was mainly due to property management fee revenue generated by Consera, which was acquired in September 2006.

Development management and other income increased \$0.2 million due to the timing of development fee income from projects.

#### Expenses

Property operating and management expenses increased \$5.9 million, or 29.5%, from \$19.8 million to \$25.7 million for the years ended December 31, 2006 and 2007, respectively. Property operating and management expenses related to acquisition properties, completed developments, and Consera operating expenses increased \$4.6 million. Same-property property operating and management expenses increased \$1.3 million, or 8.4%, primarily due to increases in reimbursable expenses such as property taxes, insurance, and utilities.

Selling, general, and administrative expenses increased \$1.1 million, or 17.6%, for the year ended December 31, 2007 compared to the same period in 2006 primarily due to increased personnel costs, income tax accruals related to development and management fees earned by the Company's TRS, and expensing of previously capitalized costs associated with a development project that was discontinued. The reimbursement of these expensed costs is included in development fee revenue.

Depreciation and amortization for the year ended December 31, 2007 was \$27.8 million compared to \$30.3 million for the year ended December 31, 2006, a decrease of \$2.5 million, or 8.3%. Same-property and

corporate depreciation and amortization expenses decreased approximately \$4.7 million, or 19.3%. The decrease was primarily due to the intangible lease assets becoming fully amortized during 2006 and 2007. This decrease is offset by an increase of \$2.2 million related to 2006 and 2007 acquisition properties and completed developments.

#### Interest Expense

Interest expense for the year ended December 31, 2007 was \$16.0 million compared to \$14.2 million for the year ended December 31, 2006, an increase of \$1.8 million, or 12.4%. This increase was primarily due to the timing of property and business acquisitions and the repayment of debt using proceeds from the March 2007 common stock equity offering.

#### Cash Flows

Cash provided by operations was \$15.9 million and \$11.9 million for the years ended December 31, 2006 and 2005, respectively. The increase of \$4.0 million was primarily due to (1) a \$3.1 million increase in earnings before non-cash depreciation, amortizations, straight-line rent and change in fair value of interest rate swap agreements, (2) proceeds of \$0.7 million from the termination of interest rate swap agreements, and (3) a \$0.2 million net increase due to changes in operating assets and liabilities primarily resulting from increased collected prepaid rent and increased accruals for interest.

Cash used in investing activities was \$103.6 million and \$33.4 million for the years ended December 31, 2006 and 2005, respectively. The increase of \$70.3 million was primarily due an increase to investments in real estate properties and businesses of \$96.5 million offset by the proceeds from the sale of real estate property and partnership interests of \$2.8 million and the cash paid of \$27.0 million in the Formation Transaction in 2005.

Cash provided by financing activities was \$78.9 million and \$29.4 million for the years ended December 31, 2006 and 2005, respectively. Cash provided by financing activities in 2006 was primarily due to net proceeds from debt of \$92.5 million, primarily drawn from the Credit Facility and the new mortgage for Methodist Professional Center One. These net proceeds were used in order to fund the current period acquisitions offset by dividends and distributions of \$13.0 million. Cash provided by financing activities in 2005 was primarily due to the receipt of the net proceeds from the sale of common stock offset by the repayment in full of certain mortgages and notes payables.

#### Construction in Progress

Construction in progress at December 31, 2008, consisted of the following (dollars in thousands):

Property	Location	Estimated Completion Date	Net Rentable Square Feet	Investment to Date	Estimated Total Investment
St. Luke's Riverside MOB	Bethlehem, PA	2nd Half 2010	80,000	\$ 1,240	\$ 16,000
The Woodlands Center (1) Medical Center Physicians Tower	Pensacola, FL	4Q 2009	76,000	\$ 8,969	\$ 24,769
Land and pre-construction developments	Jackson, TN	1Q 2009	107,000	\$ 416	\$ 21,100
			—	4,689	—
			263,000	\$ 15,314	\$ 61,869

(1) Owned by Genesis Property Holding, LLC, which is a consolidated real estate partnership. The company expects to have a 40.0% ownership upon completion.

#### Liquidity and Capital Resources

As of December 31, 2008, the Company had approximately \$34.7 million available in cash and cash equivalents. The Company is required to distribute at least 90% of the Company's net taxable income, excluding net capital gains, to the Company's stockholders on an annual basis due to qualification requirements as a REIT. Therefore, as a general matter, it is unlikely that the Company will generate substantial cash balances from operations that could be used to meet the Company's other liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

The Company has a \$150.0 million secured revolving Credit Facility. The Credit Facility is available to fund working capital and for other general corporate purposes; to finance acquisition and development activity; and to refinance existing and future indebtedness. The Credit Facility permits the Company to borrow up to \$150.0 million of revolving loans, with sub-limits of \$25.0 million for swingline loans and \$25.0 million for letters of credit. For additional information, see Note 9 to the accompanying consolidated financial statements.

The Credit Facility will terminate and all amounts outstanding thereunder shall be due and payable in March 2011. The Credit Facility provides for a one-year extension at the Company's option conditioned upon the lenders being satisfied with the Company and its subsidiaries' financial condition and liquidity, and taking into consideration any payment, extension or refinancing of the Term Loan. There could be no assurance if and on what terms the lender might be willing to extend the Credit Facility upon its maturity in March 2011.

The Credit Facility also allows for up to \$100.0 million of increased availability (to a total aggregate available amount of \$250.0 million), at the Company's option but subject to each Lender's option to increase its commitment. The interest rate on loans under the Credit Facility equals, at the Company's election, either (1) LIBOR (0.44% as of December 31, 2008) plus a margin of between 95 to 140 basis points based on the Company's total leverage ratio or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A.'s prime rate (3.25% as of December 31, 2008).

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to: (1) affirmative covenants relating to the Company's corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of the Company's REIT qualification and listing on the New York Stock Exchange, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, and (3) financial covenants to be met by the Company at all times including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances issued after the closing date). The Company was in compliance with all covenants at December 31, 2008.

As of December 31, 2008, there was \$17.5 million available under the Credit Facility. There was \$124.5 million outstanding at December 31, 2008 and \$8.0 million of availability was restricted related to outstanding letters of credit.

The Company, through Erdman, has \$100.0 million outstanding under a \$100.0 million senior secured term facility (the "Term Loan"). The Term Loan is secured by the stock and certain accounts receivable of Erdman and is guaranteed by the Company. The Term Loan matures on March 10, 2011, and is subject to a one-time right to a one-year extension at the Company's option (and the payment of an extension fee). The Term Loan contains customary covenants similar to the Credit Facility and financial covenants to be met by the Company at all times under the guaranty including a maximum total leverage ratio (70%), maximum real estate leverage ratio (70%), minimum fixed charge coverage ratio (1.50 to 1.00), maximum total debt to real estate value ratio (90%) and minimum consolidated tangible net worth (\$45 million plus 85% of the net proceeds of equity issuances), as well as being cross defaulted to the Company's Credit Facility. The Term Loan has financial covenants relating only to Erdman including a minimum adjusted consolidated EBITDA, (\$22.5 million) maximum consolidated total indebtedness to adjusted consolidated EBITDA (5.50 to 1.00), minimum adjusted consolidated EBITDA to consolidated fixed charges (2.00 to 1.00) and maximum consolidated senior indebtedness to adjusted consolidated EBITDA (4.25 to 1.00 as of December 31, 2008, decreases to 3.75 to 1.00 on July 1, 2009. Erdman may be required to repay a portion of the principal balance during 2009 if adjusted consolidated EBITDA is insufficient to meet the lowered ratio of maximum consolidated senior indebtedness to adjusted consolidated EBITDA that occurs in 2009. As of December 31, 2008, consolidated senior indebtedness to adjusted consolidated EBITDA was 3.71. If the Company or Erdman were in default under the Term Loan the lenders under the Credit Facility could declare the Company in default under that facility as well.

#### Short-Term Liquidity Needs

The Company believes that it will have sufficient capital resources as a result of operations and the borrowings in place to fund ongoing operations and distributions required to maintain REIT compliance. The Company currently anticipates 2009 cash flow from operations, before changes in operating assets and liabilities, to approximate the sum of 2009 cash outflows for capital expenditures and tenant improvement expenditures for properties owned as of December 31, 2008, dividends to shareholders, and distributions to OP Unitholders. The Company is permitted to pay a portion of its dividends in the form of common stock in lieu of cash. The Company anticipates using its cash and cash equivalents and Credit Facility availability for changes in operating assets and liabilities, principal maturities, and the Company's equity funding portion for new developments and acquisitions. The Company has no significant redevelopment planned for 2009.

As of December 31, 2008, the Company had approximately \$50.6 million of principal and maturity payments due in 2009 related to mortgage note payables. Of this \$50.6 million, \$30.0 million can be extended for one two-year period at the Company's conditional option. The Company believes it will be able to refinance the 2009 balloon



maturities as a result of the current loan to value ratios at individual properties and preliminary discussions with lenders. The stated interest rates (LIBOR plus spread) at December 31, 2008 are comparable to the Company's weighted average fixed rate at December 31, 2008. In addition, the Company has \$52.2 million combined cash and cash equivalents and Credit Facility availability as of December 31, 2008, which exceeds the 2009 principal and maturity payments due in 2009.

As of December 31, 2008, the Company has no outstanding equity commitments to joint ventures formed prior to December 31, 2008. The Cogdell Spencer Medical Partners LLC acquisition joint venture has no properties under contract to acquire as of December 31, 2008, thus the Company has no equity commitment to the joint venture as of December 31, 2008.

The Company intends to have construction financing agreements in place before construction begins on development projects. Development projects will be either wholly-owned, joint ventured with physicians, or joint ventured with other third parties.

On December 29, 2008, the Company declared a dividend to common stockholders of record and the Operating Partnership declared a distribution to holders of OP units of record, in each case as of December 31, 2008, totaling \$6.1 million, or \$0.225 per share or OP unit, covering the period from October 1, 2008 through December 31, 2008. The dividend and distribution were paid on January 30, 2009. The dividend and distribution were equivalent to an annual rate of \$0.90 per share and OP unit.

#### Long-Term Liquidity Needs

The Company's principal long-term liquidity needs consist primarily of new property development, property acquisitions, and principal payments under various mortgages and other credit facilities and non-recurring capital expenditures. The Company does not expect that its net cash provided by operations will be sufficient to meet all of these long-term liquidity needs. Instead, the Company expects to finance new property developments through modest cash equity capital contributed by the Company together with construction loan proceeds, as well as through cash equity investments by its tenants or third parties. The Company expects to fund property acquisitions through a combination of borrowings under its Credit Facility and traditional secured mortgage financing. In addition, the Company expects to use OP units issued by the Operating Partnership to acquire properties from existing owners seeking a tax deferred transaction.

Although capital markets continued to remain tight during 2008 and into the first quarter of 2009, the Company continues to expect to meet long-term liquidity requirements through net cash provided by operations and, to the extent possible and desirable, 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. Notwithstanding the Company's expectations discussed above, financial markets continue to experience unusual volatility and uncertainty. Financial systems throughout the world have become illiquid with banks no longer willing to lend substantial amounts to other banks and borrowers. Consequently, there is greater uncertainty regarding the Company's ability to access the credit market in order to attract financing or capital on reasonable terms or on any terms. The Company may also issue unsecured debt in the future. However, with the current deteriorating general economic conditions and the current volatility of the debt and equity markets, there can be no assurance as to the Company's ability to raise new debt or equity. The Company does not, in general, expect to meet its long-term liquidity needs through dispositions of its properties. In the event that the Company were to sell any of its properties in the future, depending on which property were to be sold, the Company may need to structure the sale or disposition as a tax deferred transaction which would require the reinvestment of the proceeds from such transaction in another property or, however, the proceeds that would be available to the Company from such sales may be reduced by amounts that the Company may owe under the tax protection agreements entered into in connection with the Company's formation transactions and certain property acquisitions. In addition, the Company's ability to sell certain of its assets could be adversely affected by the general illiquidity of real estate assets and certain additional factors particular to the Company's portfolio such as the specialized nature of its target property type, property use restrictions and the need to obtain consents or waivers of rights of first refusal or rights of first offers from ground lessors in the case of sales of its properties that are subject to ground leases.

The Company intends to repay indebtedness incurred under its Credit Facility from time to time, for acquisitions or otherwise, out of cash flow from operations and from the proceeds, to the extent possible and desirable, of additional debt or equity issuances. In the future, the Company may seek to increase the amount of the Credit Facility, negotiate additional credit facilities or issue corporate debt instruments. However, with the current volatility in the debt markets, there can be no assurance as to the Company's ability to raise new debt. Any indebtedness

incurred or issued by the Company may be secured or unsecured, short-, medium- or long-term, fixed or variable interest rate and may be subject to other terms and conditions the Company deems acceptable. The Company intends to refinance at maturity the mortgage notes payable that have balloon payments at maturity.

## Contractual Obligations

The following table summarizes the Company's contractual obligations as of December 31, 2008, including the maturities and scheduled principal repayments and the commitments due in connection with the Company's ground leases and operating leases for the periods indicated (in thousands):

Obligation:	2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt principal payments and maturities (1)	\$ 50,577	\$ 31,708	\$ 250,898	\$ 23,137	\$ 13,861	\$ 94,843	\$ 465,024
Standby letters of credit (2)	8,048	—	—	—	—	—	8,048
Interest payments (3)	21,987	18,796	10,129	6,774	5,842	13,837	77,365
Purchase commitments (4)	11,589	836	—	—	—	—	12,425
Ground leases (5)	314	314	314	315	315	9,631	11,203
Operating leases (6)	5,217	4,316	3,857	3,556	2,968	24,527	44,441
Total	\$ 97,732	\$ 55,970	\$ 265,198	\$ 33,782	\$ 22,986	\$ 142,838	\$ 618,506

- (1) Includes notes payable under the Company's Credit Facility
- (2) As collateral for performance, the Company is contingently liable under standby letters of credit, which also reduces the availability under the Credit Facility
- (3) Assumes one-month LIBOR of 0.44% and Prime Rate of 3.25% which were the rates as of December 31, 2008 and includes fixed rate interest swap agreements.
- (4) These purchase commitments are related to the Company's development projects that are currently under construction.
- (5) Substantially all of the ground and air rights leases effectively limit our control over various aspects of the operation of the applicable property, restrict our ability to transfer the property and allow the lessor the right of first refusal to purchase the building and improvements. All of the ground leases provide for the property to revert to the lessor for no consideration upon the expiration or earlier termination of the ground or air rights lease.
- (6) Payments under operating lease agreements relate to various of our properties' equipment and office space leases. The future minimum lease commitments under these leases are as indicated.

For additional information, see Note 11 to the accompanying consolidated financial statements.

## Off-Balance Sheet Arrangements

The Company may guarantee debt in connection with certain of its development activities, including joint ventures, from time to time. As of December 31, 2008, the Company did not have any such guarantees or other off-balance sheet arrangements outstanding.

## Real Estate Taxes

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

## Inflation

The Company's leases at wholly-owned and consolidated partnership properties generally provide for either indexed escalators, based on the CPI or other measures or, to a lesser extent, fixed increases in base rents. The leases also contain provisions under which the tenants reimburse the Company for a portion of property operating expenses

and real estate taxes. The Company's property management and related services provided to third parties typically provide for fees based on a percentage of revenues for the month as defined in the related property management agreements. The revenues collected from leases are generally structured as described above, with year over year increases. The Company also pays certain payroll and related costs related to the operations of third party properties that are managed by the Company. Under terms of the related management agreements, these costs are reimbursed by the third party property owners. The Company believes that inflationary increases in expenses will be offset, in part, by the contractual rent increases and tenant expense reimbursements described above.

#### Seasonality

Erdman's business can be subject to seasonality due to weather conditions at construction sites. In addition, construction starts and contract signings can be impacted by the timing of budget cycles at healthcare systems and providers.

#### Recent Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

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

As of December 31, 2008, the Company had \$465.2 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of the Company's total consolidated debt, \$124.2 million, or 26.7%, was variable rate debt that is not subject to variable to fixed rate interest rate swap agreements. Of the Company's total indebtedness, \$342.5 million, or 73.7%, 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 4.84% as of December 31, 2008.

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

Item 8. Financial Statements and Supplementary Data

COGDELL SPENCER INC.

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Notes to Schedule III — Real Estate and Accumulated Depreciation	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Cogdell Spencer Inc.  
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Cogdell Spencer Inc. and subsidiaries (the “Company”) as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cogdell Spencer Inc. and subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2009 expressed an unqualified opinion on the Company’s internal control over financial reporting.

DELOITTE & TOUCHE LLP

Raleigh, North Carolina  
March 16, 2009



COGDELL SPENCER INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

	December 31, 2008	December 31, 2007
Assets		
Real estate properties:		
Land	\$ 30,673	\$ 30,673
Buildings and improvements	501,259	455,606
Less: Accumulated depreciation	(69,285)	(44,596)
Net operating real estate properties	462,647	441,683
Construction in progress	15,314	13,380
Net real estate properties	477,961	455,063
Cash and cash equivalents	34,668	3,555
Restricted cash	12,964	1,803
Tenant and accounts receivable, net of allowance of \$194 in 2008 and \$19 in 2007	43,523	2,248
Goodwill	180,435	5,335
Trade names and trademarks	75,969	—
Intangible assets, net of accumulated amortization of \$38,054 in 2008 and \$18,728 in 2007	45,363	26,254
Other assets	29,207	11,979
Total assets	\$ 900,090	\$ 506,237
Liabilities and stockholders' equity		
Mortgage notes payable	\$ 240,736	\$ 237,504
Revolving credit facility	124,500	79,200
Term loan	100,000	—
Accounts payable	22,090	5,817
Billings in excess of costs and estimated earnings on uncompleted contracts	17,025	—
Deferred income taxes	34,176	217
Payable to prior Erdman shareholders	18,002	—
Other liabilities	60,567	21,243
Total liabilities	617,096	343,981
Commitments and contingencies		
Minority interests in real estate partnerships	6,279	2,434
Minority interests in operating partnership	87,766	44,787
Stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000 shares authorized, none issued or outstanding	—	—
Common stock; \$0.01 par value; 200,000 shares authorized, 17,699 and 11,948 shares issued and outstanding in 2008 and 2007, respectively	177	119
Additional paid-in capital	275,380	166,901
Accumulated other comprehensive loss	(9,170)	(1,234)
Accumulated deficit	(77,438)	(50,751)
Total stockholders' equity	188,949	115,035
Total liabilities and stockholders' equity	\$ 900,090	\$ 506,237

See notes to consolidated financial statements.

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

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006
Revenues:			
Rental revenue	\$ 77,799	\$ 63,029	\$ 52,746
Design-Build contract revenue and other sales	253,596	—	—
Property management and other fees	3,460	3,502	2,077
Development management and other income	885	290	133
Total revenues	335,740	66,821	54,956
Expenses:			
Property operating and management	31,376	25,704	19,848
Costs related to design-build contract revenue and other sales	214,019	—	—
Selling, general, and administrative	30,215	7,365	6,261
Depreciation and amortization	45,016	27,758	30,273
Total expenses	320,626	60,827	56,382
Income (loss) from continuing operations before other income (expense), income tax (expense) benefit, minority interests in real estate partnerships, minority interests in operating partnership, and discontinued operations	15,114	5,994	(1,426)
Other income (expense):			
Interest and other income, net	922	1,073	821
Interest expense	(25,159)	(15,964)	(14,199)
Loss on early extinguishment of debt	—	—	(37)
Equity in earnings of unconsolidated real estate partnerships	22	20	4
Gain from sale of real estate partnership interests	—	—	484
Total other income (expense)	(24,215)	(14,871)	(12,927)
Loss from continuing operations before income tax (expense) benefit, minority interests in real estate partnerships, minority interests in operating partnership, and discontinued operations	(9,101)	(8,877)	(14,353)
Income tax (expense) benefit	1,244	(117)	(107)
Loss from continuing operations before minority interests in real estate partnerships, minority interests in operating partnership, and discontinued operations	(7,857)	(8,994)	(14,460)
Minority interests in real estate partnerships	(964)	(85)	(121)
Minority interests in operating partnership	3,048	2,738	5,208

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Net loss from continuing operations	(5,773)	(6,341)	(9,373)
Discontinued operations:			
Loss from discontinued operations	—	—	(9)
Gain from sale of real estate property	—	—	435
Minority interests in operating partnership	—	—	