Cogdell Spencer Inc.
Form 10-Q
August 09, 2007

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

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

**For the quarterly period ended June 30, 2007**

**OR**

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

**For the transition period from _____ to _____**

**Commission file number 001-32649**

**COGDELL SPENCER INC.**

(Exact name of registrant as specified in its charter)

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

**(704) 940-2900**

(Registrant s telephone number, including area code)

N/A

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o.

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: 11,949,745 shares of common stock, par value $.01 per share, outstanding as of August 6, 2007.

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**PART I. FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**

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

| | As of June 30, 2007 | As of December 31, 2006 |
|---|---|---|
| **Assets** | | |
| Real estate properties: | | |
| Land | $ 24,971 | $ 22,768 |
| Buildings and improvements | 396,876 | 339,214 |
| Less: Accumulated depreciation | (33,504) | (23,664) |
| Total operating real estate properties, net | 388,343 | 338,318 |
| Construction in progress | 13,857 | 12,854 |
| Total real estate properties, net | 402,200 | 351,172 |
| Cash and cash equivalents | 4,177 | 1,029 |
| Restricted cash | 1,113 | 982 |
| Investment in capital lease | 6,040 | 6,193 |
| Acquired above market leases, net of accumulated amortization of $401 in 2007 and $290 in 2006 | 886 | 966 |
| Acquired in place lease value and deferred leasing costs, net of accumulated amortization of $14,575 in 2007 and $11,184 in 2006 | 17,313 | 18,205 |
| Acquired ground leases, net of accumulated amortization of $166 in 2007 and $146 in 2006 | 3,072 | 3,092 |
| Deferred financing costs, net of accumulated amortization of $470 in 2007 and $342 in 2006 | 1,176 | 1,018 |
| Goodwill | 5,335 | 5,326 |
| Other assets | 6,888 | 5,075 |
| **Total assets** | $ 448,200 | $ 393,058 |
| **Liabilities and stockholders equity** | | |
| Notes payable under line of credit | $ 34,000 | $ 77,487 |
| Mortgage loans | 210,855 | 184,544 |
| Accounts payable and other liabilities | 16,079 | 9,851 |
| Accrued dividends and distributions | 5,728 | 4,404 |
| Acquired below market leases, net of accumulated amortization of $1,834 in 2007 and $1,384 in 2006 | 3,698 | 3,096 |
| Total liabilities | 270,360 | 279,382 |
| Commitments and contingencies | | |
| Minority interests | 50,055 | 54,001 |
| 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, 11,950 and 8,000 shares issued and outstanding in 2007 and 2006, respectively | 119 | 80 |
| Additional paid-in capital | 166,848 | 87,224 |
| Accumulated other comprehensive income | 288 | 73 |
| Accumulated deficit | (39,470) | (27,702) |
| Total stockholders equity | 127,785 | 59,675 |
| **Total liabilities and stockholders equity** | $ 448,200 | $ 393,058 |

See notes to condensed consolidated financial statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Revenues:** | | | | |
| Rental | $ 14,610 | $ 13,381 | $ 28,925 | $ 25,098 |
| Management fee revenue | 498 | 218 | 1,095 | 560 |
| Expense reimbursements | 329 | 135 | 675 | 310 |
| Development fee revenue | 21 | 2 | 251 | 89 |
| Interest and other income | 192 | 242 | 601 | 533 |
| Total revenues | 15,650 | 13,978 | 31,547 | 26,590 |
| **Expenses:** | | | | |
| Property operating and management | 6,065 | 4,855 | 11,970 | 9,089 |
| General and administrative | 1,683 | 1,580 | 3,934 | 3,435 |
| Depreciation | 5,023 | 4,855 | 9,874 | 9,158 |
| Amortization | 1,726 | 2,611 | 3,517 | 4,768 |
| Interest | 3,188 | 3,393 | 7,223 | 5,784 |
| Total expenses | 17,685 | 17,294 | 36,518 | 32,234 |
| Loss from continuing operations before equity in earnings (loss) of unconsolidated real estate partnerships, minority interests in real estate partnership, minority interests in operating partnership and discontinued operations | (2,035) | (3,316) | (4,971) | (5,644) |
| Equity in earnings (loss) of unconsolidated real estate partnerships | 4 | | (5) | 5 |
| Minority interests in real estate partnership | (22) | (22) | (39) | (53) |
| Minority interests in Operating Partnership | 562 | 1,177 | 1,611 | 2,008 |
| **Loss from continuing operations** | (1,491) | (2,161) | (3,404) | (3,684) |
| Discontinued operations: | | | | |
| Loss from discontinued operations | | (7) | | (11) |
| Minority interests in Operating Partnership | | 2 | | 4 |
| Total discontinued operations | | (5) | | (7) |
| **Net loss** | $ (1,491) | $ (2,166) | $ (3,404) | $ (3,691) |
| Per share data basic and diluted | | | | |
| Loss from continuing operations | $ (0.12) | $ (0.27) | $ (0.34) | $ (0.46) |
| Loss from discontinued operations | | | | |
| Net loss | $ (0.12) | $ (0.27) | $ (0.34) | $ (0.46) |

| | | | | |
|---|---|---|---|---|
| Weighted average common shares basic and diluted | 11,931 | 7,975 | 10,153 | 7,974 |

See notes to condensed consolidated financial statements.

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**COGDELL SPENCER INC.**
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**
(In thousands)
(Unaudited)

| | Number of Common Shares | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2006** | 8,000 | $ 80 | $ 87,224 | $ 73 | $ (27,702) | $ 59,675 |
| Comprehensive loss: | | | | | | |
| Net loss | | | | | (3,404) | (3,404) |
| Unrealized gain on interest rate swaps | | | | 215 | | 215 |
| Comprehensive loss | | | | | | (3,189) |
| Issuance of common stock, net of costs | 3,950 | 39 | 78,404 | | | 78,443 |
| Conversion of Operating Partnership units to common stock | | | 6 | | | 6 |
| Amortization of restricted stock grants | | | 57 | | | 57 |
| Dividends to common stockholders | | | | | (8,364) | (8,364) |
| Adjustment to record change of interest in the Operating Partnership due to the issuance of Operating Partnership units in excess of book value | | | 1,157 | | | 1,157 |
| **Balance at June 30, 2007** | 11,950 | $ 119 | $ 166,848 | $ 288 | $ (39,470) | $ 127,785 |

See notes to condensed consolidated financial statements.

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

| | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|
| **Operating activities:** | | |
| Net loss | $ (3,404) | $ (3,691) |
| Adjustments to reconcile net loss to cash provided by operating activities: | | |
| Minority interests | (1,572) | (1,959) |
| Depreciation and amortization (including amounts in discontinued operations) | 13,391 | 13,974 |
| Amortization of acquired above market leases and acquired below market leases, net (including amounts in discontinued operations) | (341) | (448) |
| Straight line rental revenue | (153) | (80) |
| Amortization of deferred finance costs and debt premium | 127 | 8 |
| Equity-based compensation | 132 | 55 |
| Equity in loss (earnings) of unconsolidated real estate partnerships | 5 | (5) |
| Change in fair value of interest rate swap agreements | | (472) |
| Changes in operating assets and liabilities: | | |
| Other assets | (603) | (474) |
| Accounts payable and other liabilities | 4,029 | 1,981 |
| Net cash provided by operating activities | 11,611 | 8,889 |
| **Investing activities:** | | |
| Investment in real estate properties | (55,139) | (73,966) |
| Purchase of minority interests in Operating Partnership | (3,653) | |
| Proceeds from capital lease | 153 | 153 |
| Purchase of corporate equipment | (333) | |
| Distributions received from real estate partnerships | | 2 |
| Increase in restricted cash | (131) | (120) |
| Net cash used in investing activities | (59,103) | (73,931) |
| **Financing activities:** | | |
| Proceeds from mortgage notes payable | 42,250 | |
| Repayments of mortgage notes payable | (15,840) | (5,685) |
| Proceeds from line of credit | 35,200 | 70,750 |
| Repayments to line of credit | (78,687) | (4,500) |
| Net proceeds from sale of common stock | 78,404 | |
| Dividends and distributions | (10,191) | (4,328) |
| Distributions to minority interests in real estate partnership | (68) | (85) |
| Payment of deferred financing costs | (428) | (24) |
| Net cash provided by financing activities | 50,640 | 56,128 |
| Increase (decrease) in cash and cash equivalents | 3,148 | (8,914) |

| | | | | |
|---|---|---|---|---|
| Balance at beginning of period | | 1,029 | | 9,571 |
| Cumulative effect adjustment associated with the implementation of EITF 04-5 | | | | 213 |
| Balance at end of period | $ | 4,177 | $ | 870 |
| **Supplemental disclosure of cash flow information:** | | | | |
| Cash paid for interest, net of capitalized interest | $ | 7,172 | $ | 6,017 |
| Cash paid for income taxes | $ | 229 | $ | |
| **Supplemental cash flow information noncash investing and financing activities:** | | | | |
| Issuance of Operating Partnership units as consideration for investment in real estate property | | 3,583 | | |
| Investment in real estate costs contributed by partner in a consolidated real estate partnership | | 460 | | |
| Debt assumed with purchase of property | | | | 5,178 |
| Accrued dividends and distributions | | 5,728 | | 4,326 |

See notes to condensed consolidated financial statements.

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

**1. Business Description**

Cogdell Spencer Inc. (the Company ), incorporated in Maryland in 2005, is a fully-integrated, self-administered and self-managed real estate investment trust ( REIT ) that invests in specialty office buildings for the medical profession, including medical offices, ambulatory surgery and diagnostic centers, in the United States of America. As of June 30, 2007, the Company s portfolio consisted of 53 wholly-owned properties, four joint venture properties, and 58 managed medical office buildings.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The Company reviews its interests in entities to determine if the entity s assets, liabilities, noncontrolling interests and results of activities should be consolidated by an entity that is included in the consolidated financial statements in accordance with Financial Accounting Standards Board Interpretation ( FASB ) No. 46 (revised December 2003), Consolidation of Variable Interest Entities , Emerging Issues Task Force Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights , and Accounting Research Bulletin No. 51, Consolidated Financial Statements. The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ( GAAP ) and represent the assets and liabilities and operating results of the Company. The consolidated financial statements include the Company s accounts, its wholly-owned subsidiaries, as well as Cogdell Spencer LP (the Operating Partnership ) and its subsidiaries. The consolidated financial statements also include any partnerships for which the Company or its subsidiaries is the general partner or the managing member and the rights of the limited partners do not overcome the presumption of control by the general partner or managing member. All significant intercompany balances and transactions have been eliminated in consolidation.

***Interim Financial Information***

The financial information for the three and six months ended June 30, 2007 and 2006 is unaudited, but includes all adjustments, consisting of normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the Company s financial position, results of operations, and cash flows for such periods. Operating results for the three and six months ended June 30, 2007 and 2006 are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal years of 2007 or 2006 or any other future period. These condensed consolidated financial statements do not include all disclosures required by GAAP for annual consolidated financial statements. The Company s audited consolidated financial statements are contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

***Use of Estimates in Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Significant estimates and assumptions are used by management in determining the useful lives of real estate properties and the initial valuations and underlying allocations of purchase price in connection with real estate property acquisitions. Actual results may differ from those estimates.

***Reclassifications***

Certain 2006 amounts have been reclassified to conform to the 2007 presentation. The reclassifications did not affect previously reported stockholders equity or net loss. These reclassifications include the reclassification of the operating results of one property to discontinued operations. For additional information, see Note 4 to the Company s audited financial statements filed in its Annual Report on Form 10-K for the year ended December 31, 2006.

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***Recent Accounting Pronouncements***

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109 ( FIN 48 ), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken in an income tax return. For those benefits recognized, a tax position must be more-likely-than-not to be sustained based solely upon the technical merits of the position. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that, on a cumulative basis, is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming that the taxing authority has full knowledge of the position and all relevant facts. The Company implemented FIN 48 effective January 1, 2007. The adoption of FIN 48 did not result in an adjustment to the Company s financial statements.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value for assets and liabilities, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective January 1, 2008. SFAS 157 is not expected to have a material impact on the Company s results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158 Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS 158 ). SFAS 158 requires recognition of the funded status of such plans as an asset or liability, with changes in the funded status recognized through comprehensive income in the year in which they occur. These provisions of SFAS 158 were effective December 31, 2006. Additionally, SFAS 158 requires measurement of a plan s assets and its obligations at the end of the employer s fiscal year, effective December 31, 2008. SFAS 158 has not had, and is not expected to have, a material impact on the Company s results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

**3. Property Acquisition**

In June 2007, the Company, through the Operating Partnership, acquired Central New York Medical Center in Syracuse, New York. The fully leased, six-story, 111,634 square foot facility is located on the campus of the Crouse Hospital and includes a 469 space parking garage. The property was acquired for $36.2 million, inclusive of transaction costs. The consideration consisted of the issuance of 181,133 Operating Partnership units ( OP units ) valued at $3.6 million and cash of $32.6 million. The following table is a preliminary allocation of the purchase price (in thousands):

| | |
|---|---|
| Land and improvements | $ 2,180 |
| Building and improvements | 32,606 |
| Acquired in place lease value and deferred leasing costs | 2,429 |
| Acquired above market leases | 28 |
| Acquired below market leases | (1,043) |
| Total purchase price allocated | $ 36,200 |

The following summary of selected unaudited pro forma results of operations presents information as if the purchase of the Central New York Medical Center property had occurred at the beginning of the periods indicated. The pro forma information is provided for informational purposes only and is not indicative of results that would have occurred had the property been purchased at the beginning of the periods indicated or results which may occur in the

future (in thousands, except per share amounts):

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| | Six Months Ended | |
|---|---|---|
| | June 30, 2007 | June 30, 2006 |
| Total revenues | $33,845 | $ 28,888 |
| Net loss | (1,828) | (2,115) |
| Per share information: | | |
| Basic and diluted loss per share | $ (0.18) | $ (0.27) |

**4. Investments in Real Estate Partnerships**

As of June 30, 2007, the Company had an ownership interest in five limited liability companies or limited partnerships. The following is a description of each of the entities:

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

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

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

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

Mebane Medical Investors, LLC, a North Carolina limited liability company, founded in 2006, 49.0% owned by the Company, currently has one medical office building under construction.

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

Rocky Mount MOB and Mebane Medical Investors are included in the Company s consolidated financial statements because the limited partners do not have sufficient participation rights in the partnerships to overcome the presumption of control by the Company as the managing member. The limited partners have certain protective rights such as the ability to prevent the sale of building, the dissolution of the partnership, or the incurrence of additional indebtedness.

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

| | As of June 30, 2007 | As of December 31, 2006 |
|---|---|---|
| **Financial position:** | | |
| Total assets | $ 58,723 | $ 58,267 |
| Total liabilities | 52,603 | 51,441 |
| Members equity | 6,120 | 6,826 |

| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|

| | 2007 | 2006 | 2007 | 2006 |
|---|---|---|---|---|
| **Results of operations:** | | | | |
| Revenues | $ 3,009 | $ 1,354 | $5,888 | $2,713 |
| Operating and general and administrative expenses | 1,402 | 701 | 2,575 | 1,376 |
| Net income | 170 | 114 | 447 | 257 |

The 2.0% ownerships in Shannon Health/MOB Limited Partnership No. 1 and BSB Health/MOB Limited Partnership No. 2 were assumed as part of the Consera Healthcare Real Estate ( Consera ) acquisition in September 2006. The

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partnership agreements and tenant leases of the limited partners are designed to give preferential treatment to the limited partners as to 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.

**5. Mortgages, Notes Payable and Guarantees**

In March 2007, the Company obtained construction financing related to the Lancaster General Health Campus MOB project. The facility provides financing up to $11.0 million and will convert to permanent financing at the date of occupancy. The interest rate during the construction period is LIBOR plus 1.05% (6.37% as of June 30, 2007). The mortgage note payable will mature five or seven years, at the Company s option, from the date of occupancy and provides for principal payments based on a 25 year amortization. As of June 30, 2007, there was $4.3 million drawn on the facility.

In May 2007, the Company obtained construction financing related to the Mebane Medical Office Building project. The facility provides financing up to $13.0 million with an interest rate equal to LIBOR plus 1.3% (6.55% as of June 30, 2007). The mortgage note payable matures in May 2010 and provides for interest-only payments through May 2009 and principal payments based on a 30 year amortization from June 2009 through the maturity date of May 2010. The facility has two one-year extension options.

In May 2007, the Company refinanced the Parkridge MOB, LLC mortgage note payable. The note payable requires interest-only payments through June 2012 and principal and interest payment of $84,359 per month from July 2012 through the maturity date of June 2017. The note payable has a fixed interest rate of 5.68%.

In June 2007, in connection with the acquisition of the Central New York Medical Center, the Company obtained a mortgage note payable for $24.5 million. The note payable requires interest-only payments through the maturity date of May 2017 at a fixed interest rate of 6.22%.

**6. Minority Interests**

Minority interests in the Operating Partnership at June 30, 2007 and December 31, 2006 were $49.5 million and $53.8 million, respectively.

As of June 30, 2007, there were 16,547,720 OP units outstanding, of which 11,949,745, or 72.2%, were owned by the Company and 4,597,975, or 27.8%, were owned by other partners (including certain of our tenants, directors, and senior management).

**7. Commitments**

Related to the Lancaster Rehabilitation Hospital property, the single tenant lessee has the option to acquire the property from the Company at fair market value on certain dates during the tenant s lease term. The first option date occurs on June 1, 2014.

**8. Dividends and Distributions**

On June 13, 2007, the Company declared a dividend to common stockholders of record and the Operating Partnership declared a distribution to unitholders of record, in each case as of June 25, 2007, totaling $5.7 million or $0.35 per share or OP unit, covering the period from April 1, 2007 through June 30, 2007. The dividend and distribution were paid on July 19, 2007. The dividend and distribution were equivalent to an annual rate of $1.40 per share or OP unit.

**9. Loss per Share**

The following is a summary of the elements used in calculating basic and diluted loss per share (in thousands, except per share amount):

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| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Loss from continuing operations | $ (1,491) | $ (2,161) | $ (3,404) | $ (3,684) |
| Loss from discontinued operations | | (5) | | (7) |
| Net loss | $ (1,491) | $ (2,166) | $ (3,404) | $ (3,691) |
| Per share data basic and diluted: | | | | |
| Loss from continuing operations | $ (0.12) | $ (0.27) | $ (0.34) | $ (0.46) |
| Income (loss) from discontinued operations | | | | |
| Net loss | $ (0.12) | $ (0.27) | $ (0.34) | $ (0.46) |
| Weighted average shares outstanding - basic and diluted | 11,931 | 7,975 | 10,153 | 7,974 |

The following potentially dilutive securities were outstanding, but were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Operating Partnership units | 4,506 | 4,365 | 4,545 | 4,365 |
| Unvested restricted stock | 18 | 22 | 19 | 25 |
| | 4,524 | 4,387 | 4,564 | 4,390 |

**10. Related Party Transactions**

The Fork Farm, a working farm owned by the Company s Chairman, periodically hosts events on behalf of the Company. Charges for such events of approximately $30,000 annually are reflected in general and administrative expenses in the consolidated statement of operations. For the period January 1, 2007 through June 30, 2007, approximately $12,000 was paid to The Fork Farm.

**11. Segment Reporting**

The Company defines business segments by their distinct customer base and service provided based on the financial information used by our chief operating decision maker to make resource allocation decisions and assess performance. There are two identified reportable segments: (1) property operations and (2) real estate services. Management evaluates each segment s performance based on net operating income, which is defined as income before corporate general and administrative expenses, depreciation, amortization, interest expense, loss on early extinguishment of debt, gain on sale of real estate property, loss on unconsolidated real estate joint ventures, and minority interests in Operating Partnership. Intersegment revenues and expenses are reflected at the contractually stipulated amounts and eliminated in consolidation or combination. The following table represents the segment information for the three months ended June 30, 2007 and 2006 (in thousands):

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| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| **Property operations:** | | | | |
| Rental revenues | $ 14,610 | $ 13,381 | $ 28,925 | $ 25,098 |
| Interest and other income | 187 | 235 | 382 | 441 |
| Property operating expenses | (4,297) | (3,768) | (8,542) | (6,958) |
| Intersegment expenses | (1,087) | (871) | (2,084) | (1,713) |
| Net operating income | $ 9,413 | $ 8,977 | $ 18,681 | $ 16,868 |
| Total segment assets, end of period | $ 437,876 | $ 362,441 | $ 437,876 | $ 362,441 |
| **Real estate services:** | | | | |
| Fee revenue | $ 519 | $ 220 | $ 1,346 | $ 649 |
| Expense reimbursements | 330 | 135 | 677 | 310 |
| Interest and other income | 4 | 7 | 217 | 92 |
| Intersegment revenues | 1,087 | 871 | 2,084 | 1,713 |
| Real estate operating expenses | (2,007) | (1,196) | (3,961) | (2,359) |
| Net operating income (loss) | $ (67) | $ 37 | $ 363 | $ 405 |
| Total segment assets, end of period | $ 10,324 | $ 6,322 | $ 10,324 | $ 6,322 |
| **Reconciliations:** | | | | |
| Total segment revenues | $ 16,737 | $ 14,849 | $ 33,631 | $ 28,303 |
| Elimination of intersegment revenues | (1,087) | (871) | (2,084) | (1,713) |
| Total revenues | $ 15,650 | $ 13,978 | $ 31,547 | $ 26,590 |
| Total segment net operating income | $ 9,346 | $ 9,014 | $ 19,044 | $ 17,273 |
| Corporate general and administrative expenses | (1,444) | (1,471) | (3,401) | (3,207) |
| Depreciation and amortization expense | (6,749) | (7,466) | (13,391) | (13,926) |
| Interest expense | (3,188) | (3,393) | (7,223) | (5,784) |
| Equity in earnings (loss) of unconsolidated real estate partnerships | 4 | | (5) | 5 |
| Minority interests | 540 | 1,155 | 1,572 | 1,955 |
| Total discontinued operations | | (5) | | (7) |
| Net loss | $ (1,491) | $ (2,166) | $ (3,404) | $ (3,691) |
| Total segment assets | $ 448,200 | $ 368,763 | $ 448,200 | $ 368,763 |
| Total discontinued operations | | 1,479 | | 1,479 |

| | | | | |
|---|---|---|---|---|
| Total assets, end of period | $ 448,200 | $ 370,242 | $ 448,200 | $ 370,242 |

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

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

the Company s business strategy;

the Company s ability to obtain future financing arrangements;

estimates relating to the Company s future distributions;

the Company s understanding of the Company s competition;

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

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

the Company s tenants ability to make rent payments;

defaults by tenants;

market trends; and

projected capital expenditures.

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

**Overview**

The Company is a fully-integrated, self-administered and self-managed REIT that invests in specialty office buildings for the medical profession, including medical offices, ambulatory surgery and diagnostic centers, 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 s management team has developed long-term and extensive relationships through developing and maintaining modern, customized medical office buildings and healthcare related facilities. The Company has been able to maintain occupancy above market levels and secure strategic hospital campus locations. The Company operates its business through Cogdell Spencer LP (the Operating Partnership ), its operating partnership subsidiary, and its subsidiaries.

The Company derives a significant portion of its revenues from rents received from tenants under existing leases in medical office buildings and other healthcare related facilities. The Company derives a lesser portion of its revenues from fees that are paid for managing and developing medical office buildings and other healthcare related facilities for third parties. 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.

As of June 30, 2007, the Company owned and/or managed 115 medical office buildings and healthcare related facilities, serving 29 hospital systems in 12 states. The Company s aggregate portfolio was comprised of:

53 wholly owned properties;

four joint venture properties; and

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58 properties owned by third parties.

At June 30, 2007, the Company s aggregate portfolio contained approximately 5.6 million net rentable square feet, consisting of approximately 2.8 million net rentable square feet from wholly-owned properties, approximately 0.3 million net rentable square feet from joint venture properties, and approximately 2.5 million net rental square feet from properties owned by third parties and managed by the Company. Approximately 80% of the net rentable square feet of the wholly owned properties are situated on hospital campuses. As such, the Company believes that its 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 June 30, 2007, the Company s in-service, wholly-owned properties were approximately 93.2% occupied, with a weighted average remaining lease term of approximately 4.1 years.

**Factors Which May Influence Future Results of Operations**

Generally, the Company s revenues and expenses have remained consistent except for development fees and increases due to acquisitions.

Related to the Company s interest rate swap agreements that do not qualify for hedge accounting, changes in fair values, which vary from period to period based on changes in market interest rates, are recorded in interest expense. Generally, increases (decreases) in market interest rates will increase (decrease) the fair value of the derivative, which will decrease (increase) current period interest expense for the change in fair value. During the fourth quarter of 2006, the Company terminated several derivative transactions and entered into new agreements with the appropriate hedge documentation in place, which reduced the variances previously experienced in interest expense. The Company will continue to have interest expense variability for variable rate mortgages that do not have interest rate swap agreements.

**Critical Accounting Policies**

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses in the reporting period. The Company s actual results may differ from these estimates. Management has provided a summary of the Company s significant accounting policies in Note 2 to the Company s consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2006. 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.

***Investments in Real Estate***

*Acquisition of real estate.* The price that the Company pays to acquire a property is impacted by many factors, including the condition of the buildings and improvements, the occupancy of the building, the existence of above and below market tenant leases, the creditworthiness of the tenants, favorable or unfavorable financing, above or below market ground leases and numerous other factors. Accordingly, the Company is required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the assets acquired and liabilities assumed based on the Company s estimate of the fair values of such assets and liabilities. This includes determining the value of the buildings and improvements, land, any ground leases, tenant improvements, in-place tenant leases, tenant relationships, the value (or negative value) of above (or below) market leases and any debt assumed from the seller or loans made by the seller to the Company. Each of these estimates requires significant judgment and some of the estimates involve complex calculations. The Company s calculation methodology is summarized in Note 2 to the Company s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2006. 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

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much longer period of time, since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the terms of the leases. Additionally, the amortization of value (or negative value) assigned to above (or below) market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place leases and tenant relationships, which is included in depreciation and amortization in the Company s consolidated and combined statements of operations.

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

*Asset impairment valuation.* The Company reviews the carrying value of its properties 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 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 a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. 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 occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Since cash flows on properties considered to be long-lived assets to be held and used are considered on an undiscounted basis to determine whether an asset has been impaired, the Company s strategy of holding properties over the long-term directly decreases the likelihood of recording an impairment loss. If the Company s strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material. If the Company determines that impairment has occurred, the affected assets must be reduced to their fair value. No such impairment losses have been recognized to date. The Company estimates the fair value of rental properties utilizing a discounted cash flow analysis that includes projections of future revenues, expenses and capital improvement costs, similar to the income approach that is commonly utilized by appraisers. The Company reviews the value of goodwill using an income approach on an annual basis and when circumstances indicate a potential impairment may exist.

***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. The Company receives fees for property management and development and consulting services from time to time from third parties which is 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. Development and consulting fees are recorded on a percentage of completion method using management s best estimate of time and costs to complete projects. The Company has a long history of developing reasonable and dependable estimates related to development or consulting contracts with clear requirements and rights of the parties to the contracts. Although not frequent, occasionally revisions to estimates of costs are necessary and are reflected as a change in estimate when known. Due to the amount of control retained by the Company, most joint venture developments will be consolidated, therefore those development fees will be eliminated in consolidation. Other

income shown in the statement of operations, generally includes interest income, primarily from the amortization of unearned income on a sales-type capital lease recognized in accordance with 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 minimum rent, deferred rent, expense reimbursements, lease termination fees and

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other income. The Company specifically analyzes accounts receivable and historical bad debts, tenant concentrations, tenant creditworthiness, and current economic trends when evaluating the adequacy of the allowance for bad debts. These estimates have a direct impact on the Company s net income because a higher bad debt allowance would result in lower net income, and recognizing rental revenue as earned in one period versus another would result in higher or lower net income for a particular period.

***REIT Qualification Requirements***

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

**Changes in Financial Condition**

On March 23, 2007, the Company issued 3,949,700 common shares at a price of $21.00 per share resulting in net proceeds to the Company of $78.4 million. The net proceeds were used to reduce outstanding principal on the Company s unsecured credit facility and for working capital.

**Results of Operations**

The Company s loss from operations is generated primarily from operations of its properties and development and property management fee revenue. The changes in operating results from period to period reflect changes in existing property performance and changes in the number of properties due to development, acquisition, or disposition of properties.

***Property Summary***

The following is an activity summary of the Company s property portfolio (excluding unconsolidated real estate partnerships) for the three and six months ended June 30, 2007 and 2006 and the year ended December 31, 2006:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Properties at beginning of the period | 50 | 49 | 50 | 44 |
| Consolidation of Rocky Mount MOB LLC | | | | 1 |
| Acquisitions | 1 | | 1 | 4 |
| In-service development | 1 | | 1 | |
| Dispositions | | | | |
| Properties at end of the period | 52 | 49 | 52 | 49 |
| Lease-up development property | 1 | | 1 | |

| | Year Ended December 31, 2006 |
|---|---|
| Properties at January 1 | 44 |
| Consolidation of Rocky Mount MOB LLC | 1 |
| Acquisitions | 6 |
| Dispositions | (1) |
| Properties at December 31 | 50 |

The above tables exclude East Jefferson Medical Specialty Building, which is accounted for as a sales-type capital lease and include Rocky Mount MOB, a consolidated entity owned 34.5% by the Company.

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.

***Comparison of the three months ended June 30, 2007 and June 30, 2006***

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***Revenue.*** Total revenue increased $1.7 million, or 12.0%, for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. This increase was primarily due to an increase in revenue of $1.5 million related to rental revenue from properties acquired from July 1, 2006 to June 30, 2007, developments that began operations in 2007, and management fee and expense reimbursement revenue from Consera Healthcare Real Estate ( Consera ), which was acquired in September 2006. There was a $0.3 million increase in same-property revenue and a $0.1 million decrease in other income.

***Property operating and management expenses.*** Property operating and management expenses increased $1.2 million, or 24.9%, for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. This increase was primarily due to $0.8 million of operating expenses related to properties acquired from July 1, 2006 to June 30, 2007, developments that began operations in 2007, and personnel and management costs at Consera. There was a $0.4 million increase in same-property property operating and management expenses.

***General and administrative expenses.*** General and administrative expenses increased $0.1 million, or 6.5%, for the three months ended June 30, 2007 compared to the same period in 2006 primarily due to increased personnel costs.

***Interest expense.*** Interest expense, excluding changes in fair values of the interest rate swap agreements, for the three months ended June 30, 2007 was $3.2 million compared to $3.6 million for the three months ended June 30, 2006, a decrease of $0.4 million, or 12.1%. This decrease 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 issuance.

Changes in interest rate swap fair values were recorded as a decrease or increase to interest expense until the swaps were terminated in November 2006. For the three months ended June 30, 2006, the interest rate swap agreements fair values increased by approximately $0.2 million, which resulted in a reduction of interest expense of the same amount.

***Comparison of the six months ended June 30, 2007 and June 30, 2006***

***Revenue.*** Total revenue increased $5.0 million, or 18.6%, for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. This increase was primarily due to an increase in revenue of $4.7 million related to rental revenue from properties acquired during 2006, developments that began operations in 2007, and management fee and expense reimbursement revenue from Consera. There was a $0.4 million increase in same-property revenue and a $0.1 million decrease in other income.

***Property operating and management expenses.*** Property operating and management expenses increased $2.9 million, or 31.7%, for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. This increase was primarily due to $2.2 million of operating expenses related to properties acquired during 2006, developments that began operations in 2007, and personnel and management costs at Consera. There was a $0.7 million increase in same-property property operating and management expenses.

***General and administrative expenses.*** General and administrative expenses increased $0.5 million, or 14.5%, for the six months ended June 30, 2007 compared to the same period in 2006 primarily due to the timing of tax compliance professional services, income tax accruals related to development and management fees earned by the Company s taxable REIT subsidiaries, 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.

***Interest expense.*** Interest expense, excluding changes in fair values of the interest rate swap agreements, for the six months ended June 30, 2007 was $7.2 million compared to $6.3 million for the six months ended June 30, 2006, an increase of $0.9 million, or 15.5%. This increase was primarily due to the increased borrowing to fund the acquisitions during 2006 and offset by the repayment of principal using proceeds from the March 2007 common stock equity issuance.

Changes in interest rate swap fair values were recorded as a decrease or increase to interest expense until the swaps were terminated in November 2006. For the six months ended June 30, 2006, the interest rate swap agreements fair values increased by approximately $0.5 million, which resulted in a reduction of interest expense of the same amount.

**Cash Flows**

***Comparison of the six months ended June 30, 2007 and June 30, 2006***

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Cash provided by operating activities was $11.6 million and $8.9 million during the six months ended June 30, 2007 and 2006, respectively. The increase of $2.7 million was primarily due to (1) a $0.8 million increase in earnings before non-cash depreciation and amortizations and changes in fair value of interest rate swap agreements and (2) a $1.9 million net increase due to changes in operating assets and liabilities primarily resulting from increased accrued expenses and prepaid rent as of June 30, 2007 as compared to the prior year.

Cash used in investing activities was $59.1 million and $73.9 million during the six months ended June 30, 2007 and 2006, respectively. The decrease is primarily due to the acquisition of one property during the six months ended June 30, 2007 compared to four properties during the same period in 2006, offset by increased development activity in 2007.

Cash provided by financing activities was $50.7 million and $56.1 million for the six months ended June 30, 2007 and 2006, respectively. The decrease of $5.4 million was primarily due to the timing of quarterly distributions. During 2007, there were two distributions paid to stockholders and unitholders compared to one distribution payment in 2006. For the period November 2005 (the commencement of operations) through December 2005, the distribution was paid in December 2005, whereas for the period October 2006 through December 2006, the distribution was paid in January 2007.

**Construction in Progress**

During the three months ended June 30, 2007, the Company completed two development projects, Carolina Forest Medical Plaza and Lancaster Rehabilitation Hospital. Carolina Forest Medical Plaza is located in Horry County, South Carolina. At June 30, 2007, the facility was 43.2% leased and is anchored by Grand Strand Regional Medical Center. At June 30, 2007, Lancaster Rehabilitation Hospital was 100% leased by an operating joint venture composed of St. Louis-based Centerre Healthcare Corp. and Lancaster General Hospital. This facility, located on Lancaster General Health Campus, includes a therapeutic pool, gymnasium, 50 private rooms and space for intensive inpatient physical rehabilitation following strokes, trauma or other health care problems that result in severe disabilities.

Construction in progress at June 30, 2007 consisted of two development projects, Lancaster General Health Campus MOB and Mebane Medical Office Building. The following is a summary of the construction in progress balance (dollars in thousands):

| Property | Location | Estimated Completion Date | Estimated Net Rentable Square Feet | Investment to Date | Estimated Total Investment |
|---|---|---|---|---|---|
| Lancaster General Health Campus MOB | Lancaster, PA | 4Q 2007 | 64,070 | $ 9,527 | $ 13,700 |
| Mebane Medical Office Building | Mebane, NC | 2Q 2008 | 60,000 | 3,209 | 16,200 |
| Land and pre-construction developments | | | | 1,121 | |
| | | | 124,070 | $ 13,857 | $ 29,900 |

Mebane Medical Investors, LLC, which will own Mebane Medical Office Building, is a real estate partnership among the Company and Alamance Regional Medical Center, Inc. The Company currently has a 49% ownership in the real estate partnership and consolidates the partnership in accordance with EITF 04-5.

In March 2007, the Company obtained construction financing related to the Lancaster General Health Campus MOB project. The facility provides financing up to $11.0 million and will convert to permanent financing at the date of occupancy. The interest rate during the construction period is LIBOR plus 1.05% (6.37% as of June 30, 2007). The mortgage note payable will mature in five or seven years, at the Company s option, from the date of occupancy and provides for principal payments based on a 25 year amortization. As of June 30, 2007, there was $4.3 million drawn on the facility.

In May 2007, Mebane Medical Investors, LLC obtained construction financing related to the Mebane Medical Office Building project. The facility provides financing up to $13.0 million with an interest rate equal to LIBOR plus 1.3% (6.55% as of June 30, 2007). The mortgage note payable will mature in three years and provides for interest-only payments through May 2009 and principal payments based on a 30 year amortization from June 2009 through the maturity date of May 2010. The facility has two one-year extension options. As of June 30, 2007, there were no amounts drawn on the facility.

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**Liquidity and Capital Resources**

As of June 30, 2007, the Company had $4.2 million available in cash and cash equivalents. The Company will be required to distribute at least 90% of the Company s net taxable income, excluding net capital gains, to the Company s stockholders on an annual basis due to qualification requirements as a REIT. Therefore, as a general matter, it is unlikely that the Company will have any substantial cash balances that could be used to meet the Company s liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

The Company has a $130.0 million unsecured revolving credit facility (the Credit Facility ) with a syndicate of financial institutions (including Bank of America, N.A., Citicorp North America, Inc. and Branch Banking & Trust Company) (collectively, the Lenders ). The Credit Facility is available to fund working capital and for other general corporate purposes; to finance acquisition and development activity; and to refinance existing and future indebtedness. The Credit Facility permits the Company to borrow up to $130.0 million of revolving loans, with sub-limits of $25.0 million for swingline loans and $25.0 million for letters of credit.

The Credit Facility shall terminate and all amounts outstanding thereunder shall be due and payable in full, three years from November 1, 2005, subject to a one-year extension at the Company s option. The Credit Facility also allows for up to $120.0 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 plus a margin of between 100 to 130 basis points based on the Company s leverage ratio or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including: (1) limitations on the Company s ability to (A) incur additional indebtedness, (B) make distributions to the Company s stockholders, subject to complying with REIT requirements, and (C) make certain investments; (2) maintenance of a pool of unencumbered assets subject to certain minimum valuations thereof; and (3) requirements for us to maintain certain financial coverage ratios. These customary financial coverage ratios and other conditions include a maximum leverage ratio (65%, with flexibility for one two quarter increase to not more than 75%), minimum fixed charge coverage ratio (150%), maximum combined secured indebtedness (50%), maximum recourse indebtedness (15%), maximum unsecured indebtedness (60%, with flexibility for one two quarter increase to not more than 75%), minimum unencumbered interest coverage ratio (175%, with the flexibility for one two quarter decrease to 150%) and minimum combined tangible net worth ($30 million plus 85% of net proceeds of equity issuances by the Company and its subsidiaries after November 1, 2005).

As of June 30, 2007, there was $94.6 million available under the Credit Facility. There was $34.0 million outstanding at June 30, 2007 and $1.4 million of availability is restricted related to outstanding letters of credit. Subsequent to June 30, 2007, the Company had net borrowings of $4.0 million to fund the quarterly distribution and development projects.

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

On June 13, 2007, the Company declared a dividend to common stockholders of record and the Operating Partnership declared a distribution to unitholders of record, in each case as of June 25, 2007, totaling $5.7 million, or $0.35 per share or unit, covering the period from April 1, 2007 through June 30, 2007. The dividend and distribution were paid on July 19, 2007. The dividend and distribution were equivalent to an annual rate of $1.40 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, 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. 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. The Company expects to meet

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other long-term liquidity requirements through net cash provided by operations and through additional equity and debt financings, including loans from banks, institutional investors or other lenders, bridge loans, letters of credit, and other lending arrangements, most of which will be secured by mortgages. The Company may also issue unsecured debt in the future. However, in view of the Company s strategy to grow its portfolio over time, the Company does not, in general, expect to meet its long-term liquidity needs through sales of its properties. In the event that, notwithstanding this intent, the Company was in the future to consider sales of its properties from time to time, 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 certain acquisition transactions or those properties would need to be sold in a tax deferred transaction which would require reinvestment of the proceeds in another property. 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 and from the proceeds of additional debt or equity issuances. In the future, the Company may seek to increase the amount of the Credit Facility, negotiate additional credit facilities or issue corporate debt instruments. Any indebtedness incurred or issued by the Company may be secured or unsecured, short-, medium- or long-term, fixed or variable interest rate and may be subject to other terms and conditions the Company deems acceptable. The Company intends to refinance at maturity the mortgage notes payable that have balloon payments at maturity.

**Contractual Obligations**

The following table summarizes the Company s contractual obligations as of June 30, 2007, 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):

| | Through Remainder of 2007 | 2008 | 2009 | 2010 | 2011 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| **Obligation:** | | | | | | | |
| Long-term debt principal payments and maturities [1] | $ 37,050 | $ 70,785 | $ 46,605 | $ 1,626 | $ 3,710 | $ 84,674 | $ 244,450 |
| Standby letters of credit [2] | 1,422 | | | | | | 1,422 |
| Interest payments [3] | 7,207 | 10,826 | 6,996 | 5,486 | 5,299 | 17,825 | 53,639 |
| Ground leases [4] | 107 | 215 | 215 | 215 | 215 | 7,757 | 8,724 |
| Operating leases [5] | 170 | 409 | 412 | 356 | 360 | 31 | 1,738 |
| **Total** | $ 45,956 | $ 82,235 | $ 54,228 | $ 7,683 | $ 10,584 | $ 110,287 | $ 310,973 |

(1) Includes notes payable under the Credit Facility

(2) As collateral for performance on a mortgage note

payable, the Company is contingently liable under a standby letter of credit, which also reduces the availability under the Credit Facility

(3) Assumes one-month LIBOR 5.32% and Prime Rate of 8.25%

(4) Substantially all of the ground 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 lease.

(5) 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.

**Off-Balance Sheet Arrangements**

The Company guarantees debt in connection with certain of its development activities, including joint ventures. The Company has guaranteed, in the event of a default, the mortgage note payable for one unconsolidated real estate joint venture. An initial liability of $0.1 million has been recorded for the guarantee using expected present value measurement techniques. The guarantee, which has a principal balance of $8.9 million at June 30, 2007, will be released upon the full repayment of the mortgage note payable, which matures in December 2007. The mortgage is collateralized by property and the collateral will revert to the guarantor in the event the guarantee is performed.

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Management believes the probability the Company will have to perform on the guarantee in the future is minimal and therefore the Company does not expect the Company s guarantee to have a material impact on the Company s financial statements.

**Real Estate Taxes**

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

**Inflation**

Inflation in the United States has been relatively low in recent years and did not have a material impact on the results of operations for the periods shown in the consolidated and combined financial statements. Although the impact of inflation has been relatively insignificant in recent years, it remains a factor in the United States economy and may increase the cost of acquiring or replacing properties.

**Seasonality**

The Company does not consider its business to be subject to material seasonality fluctuations.

**Recent Accounting Pronouncements**

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109 ( FIN 48 ), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken in an income tax return. For those benefits recognized, a tax position must be more-likely-than-not to be sustained based solely upon the technical merits of the position. Such tax positions shall initially and subsequently be measured as the largest amount of tax benefit that, on a cumulative basis, is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming that the taxing authority has full knowledge of the position and all relevant facts. The Company implemented FIN 48 effective January 1, 2007. The adoption of FIN 48 did not result in an adjustment to the Company s financial statements.

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value for assets and liabilities, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective January 1, 2008. SFAS 157 is not expected to have a material impact on the Company s results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158 Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) ( SFAS 158 ). SFAS 158 requires recognition of the funded status of such plans as an asset or liability, with changes in the funded status recognized through comprehensive income in the year in which they occur. These provisions of SFAS 158 are effective December 31, 2006. Additionally, SFAS 158 requires measurement of a plan s assets and its obligations at the end of the employer s fiscal year, effective December 31, 2008. SFAS 158 has not had, and is not expected to have, a material impact on the Company s results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 ( SFAS 159 ). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of this new standard on its financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company s future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The

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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 June 30, 2007, the Company had $244.4 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of the Company s total consolidated debt, $61.9 million, or 25.3%, was variable rate debt that is not subject to variable to fixed rate interest rate swap agreements. Of the Company s total indebtedness, $182.5 million, or 74.7%, was subject to fixed interest rates, including variable rate debt that is subject to variable to fixed rate swap agreements.

If LIBOR were to increase by 100 basis points, the increase in interest expense on the Company s variable rate debt would decrease future annual earnings and cash flows by approximately $0.6 million. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on the Company s financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, the Company may take actions to further mitigate the Company s exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in the Company s financial structure.

**ITEM 4. CONTROLS AND PROCEDURES**

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

During the three and six month periods ended June 30, 2007, there was no change in the Company s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in our periodic reports.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

See the Company s Annual Report on Form 10-K for the year ended December 31, 2006, for risk factors. There have been no significant changes to the Company s risk factors during the three and six months ended June 30, 2007.

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

On June 29, 2007, the Operating Partnership issued an aggregate of 181,133 OP units, having an aggregate value of $3.6 million at the time of issuance, related to the acquisition of Central New York Medical Center in Syracuse, New York. These OP units were issued in exchange for ownership interest in limited liability companies as part of private placement transactions 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 six months 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 OP Units.

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**Issuer Purchases of Equity Securities**

Below is a summary of equity repurchases by month for the three months ended June 30, 2007:

| 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 |
|---|---|---|---|---|
| April 1 - April 30, 2007 | 26,218 | $ 21.66 | N/A | N/A |
| May 1 - May 31, 2007 | 115,548 | $ 21.01 | N/A | N/A |
| June 1 - June 30, 2007 | 27,753 | $ 20.70 | N/A | N/A |
| **Total** | 169,519 | $ 21.06 | N/A | N/A |

These figures only relate to repurchases of OP units. The Company did not repurchase shares of common stock during the three months ended June 30, 2007.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

The Company held its 2007 annual meeting of stockholders (the 2007 Annual Meeting ) on May 22, 2007. A detailed description of the matters voted upon at the 2007 Annual Meeting is contained in the Company s proxy statement that was filed with Securities and Exchange Commission on April 23, 2007.

At the 2007 Annual Meeting, the stockholders voted to elect James W. Cogdell, Richard B. Jennings, Richard C. Neugent, Frank C. Spencer, Christopher E. Lee, Randolph D. Smoak, M.D., and John R. Georgius to serve as directors of the Company until the Company s 2008 annual meeting of stockholders and until their successors are duly elected and qualified.

Votes were cast for and withheld in the election of directors as follows:

| Nominee | Votes For | Votes Withheld |
|---|---|---|
| James W. Cogdell | 10,619,046 | 59,399 |
| John R. Georgius | 10,659,477 | 18,968 |
| Richard B. Jennings | 10,122,331 | 556,114 |
| Christopher E. Lee | 10,659,477 | 18,968 |
| Richard C. Neugent | 10,660,477 | 17,968 |
| Randolph D. Smoak, M.D. | 10,658,570 | 19,875 |
| Frank C. Spencer | 10,619,046 | 59,399 |

There were no broker non-votes in the election of directors.

At the 2007 Annual meeting, the stockholders also voted on ratification of external auditors. The results of the vote were as follows:

| | Votes For | Abstentions |
|---|---|---|

| | | Votes Against | |
|---|---|---|---|
| Deloitte & Touche LLP | 10,668,683 | 7,504 | 2,258 |

**ITEM 5. OTHER INFORMATION**

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None.

**ITEM 6. EXHIBITS**

3.1 Articles of Amendment and Restatement of Cogdell Spencer Inc., incorporated by reference to Exhibit 3.1 of the Company s Registration Statement on Form S-11 (File No. 333-127396).

3.2 Bylaws of Cogdell Spencer Inc., incorporated by reference to Exhibit 3.2 of the Company s Registration Statement on Form S-11 (File No. 333-127396).

3.3 Amended and Restated Agreement of Limited Partnership of Cogdell Spencer LP, incorporated by reference to Exhibit 3.3 of the Company s Registration Statement on Form S-11 (File No. 333-127396).

3.4 Declaration of Trust of CS Business Trust I., incorporated by reference to Exhibit 3.4 of the Company s Registration Statement on Form S-11 (File No. 333-127396).

3.5 Declaration of Trust of CS Business Trust II, incorporated by reference to Exhibit 3.5 of the Company s Registration Statement on Form S-11 (File No. 333-127396).

4.1 Form of stock certificate, incorporated by reference to Exhibit 4.0 of the Company s Registration Statement on Form S-11 (File No. 333-127396).

31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COGDELL SPENCER INC.
*Registrant*

Date: August 8, 2007

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

Date: August 8, 2007

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