Cogdell Spencer Inc.
Form 10-K
March 30, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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 our 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:

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
8.5000% Series A Cumulative Redeemable Perpetual Preferred Stock	New York Stock Exchange

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 þ

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 þ

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on our corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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	þ
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 þ

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, was $242,700,929 (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: 51,248,442 shares of common stock, par value $0.01 per share, outstanding as of March 8, 2012.

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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 Exchange Act of 1934, as amended. Actual results may differ materially due to uncertainties including the following:

- risks related to our proposed merger with Ventas, Inc. and the sale of the Erdman business;
- changes in general economic and business conditions;
- our ability to execute our business strategy;
- our ability to comply with financial covenants in our debt instruments;
- our ability to raise capital on terms that are favorable to us;
- our ability to obtain future financing arrangements, including refinancing existing arrangements, on terms that are favorable to us;
- estimates relating to our future distributions;
- increased competition for tenants and new properties;
- our ability to renew our ground leases;
- legislative and regulatory changes (including changes to laws governing the taxation of REITs and individuals);
- increases in costs of borrowing as a result of changes in interest rates;
- our ability to maintain our qualification as a REIT due to economic, market, legal, or tax considerations;
- changes in the reimbursement available to our tenants by government or private payors;
- our tenants ability to make rent payments and renew leases at the end of the term;

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

We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Readers are cautioned not to place undue reliance on any of these forward-looking statements.

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

PART I

In this Annual Report on Form 10-K, unless the context requires otherwise, all references to we, us, our, our Company, and Cogdell Spencer refer to Cogdell Spencer Inc. and its consolidated subsidiaries, including Cogdell Spencer LP, our operating partnership subsidiary (the Operating Partnership).

Item 1. *Business*

The Company

Cogdell Spencer Inc. is a real estate investment trust (REIT) focused on planning, owning, developing, constructing, and managing healthcare facilities. We help our clients deliver superior healthcare through customized facilities, with high tenant satisfaction, and strategic management. We operate our business through Cogdell Spencer LP, our operating partnership subsidiary (the Operating Partnership), and our subsidiaries.

Our growth strategy includes leveraging strategic relationships and our integrated platform for new developments, design-build construction projects for third parties, and off-market acquisitions. We also enter into development joint ventures with hospitals, physicians, and other partners.

We derive a majority of our revenues from two main sources: (1) rents received from tenants under leases in healthcare facilities; and (2) revenue earned from design-build construction contracts and development contracts.

Our property portfolio is stable with an occupancy rate of 92.5% as of December 31, 2011. We expect rental revenue to be stable due to leases with annual rental increases based on the Consumer Price Index (CPI). Generally, our property operating revenues and expenses have remained consistent over time except for growth due to property developments and property acquisitions. Our property management team provides a proactive, customer-focused service approach for tenants. We believe that a strong internal property management capability is a vital component of our business, both for properties we own and for those that we manage. Strong internal property management enables us to control property operating costs, increase tenant satisfaction, reduce tenant turnover, and build business relationships.

As of December 31, 2011, we owned and/or managed 118 medical office buildings and healthcare related facilities, totaling approximately 6.2 million net rentable square feet. Our portfolio consists of:

	September 30, Number of Properties	September 30, Net Rentable Square Feet (in millions)	September 30, Percentage Leased
Stabilized properties:			
Wholly-owned	61	3.33	
Consolidated joint ventures	7	0.51	
Total stabilized properties	68	3.84	92.5%
Fill-up properties[(1)]:	3	0.19	67.0%
Total consolidated properties	71	4.03	
Unconsolidated joint venture properties	3	0.21	
Properties managed for third parties	44	1.99	
Total portfolio	118	6.23	

(1) Fill-up properties are newly available properties that have not achieved underwritten stabilized occupancy.

At December 31, 2011, 73.8% of our wholly-owned and consolidated properties were located on hospital campuses and an additional 11.5% were located off-campus, but were hospital anchored. We believe that our on-campus and hospital anchored assets occupy a premier franchise location in relation to local hospitals, providing our properties with a distinct competitive advantage over alternative medical office space in an area.

We have a national full-service planning, design and construction firm specializing in healthcare facilities. We provide fully integrated solutions to healthcare facilities throughout the United States, including planning, architecture, engineering, construction, materials management, manufacturing, capital and development services. We are a leading design-builder of healthcare facilities. Founded in 1951, we and our predecessors have a 60 year track record of and reputation for delivering healthcare facilities with appropriate design, longevity, sustainability and excellent operational efficiency. We maintain long-term trusted advisor status with physicians and physician groups nationwide. We have successfully cultivated a customer mix that is diversified in both geography and market focus and includes physician group practices and healthcare systems. At December 31, 2011, we had approximately $49.6 million in unearned design-build backlog.

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Proposed Merger with Ventas; Sale of Erdman Business

Merger with Ventas

On December 24, 2011, we entered into an Agreement and Plan of Merger (the merger agreement) with our Operating Partnership, Ventas, Inc., a Delaware corporation (Ventas), TH Merger Corp, Inc., a Maryland corporation and Ventas wholly-owned subsidiary (MergerSub), and TH Merger Sub, LLC, a Delaware limited liability company and Ventas wholly owned subsidiary (OP MergerSub , and, together with Ventas and MergerSub, the Purchaser Parties). The merger agreement provides for the merger of us with MergerSub (the Company Merger) and the merger of OP MergerSub with and into the OP (the Partnership Merger and, together with the Company Merger, the Mergers).

At the effective time of the Company Merger, each share of our common stock that remains outstanding immediately prior to the effective time (other than shares of our common stock owned directly or indirectly, by us or any of our subsidiaries, Ventas, or MergerSub or any other direct or indirect subsidiary of Ventas (which shall be cancelled and retired and shall cease to exist and for which no consideration shall be delivered)) will be automatically cancelled and converted into the right to receive $4.25 in cash (the Per Share Consideration), without interest.

At the effective time of the Company Merger, each share of our Series A Preferred Stock that remains outstanding immediately prior to the effective time (other than shares of Series A Preferred Stock owned, directly or indirectly, by us or any of our subsidiaries, Ventas, or MergerSub or any other direct or indirect subsidiary of Ventas (which shall be cancelled and retired and shall cease to exist and for which no consideration shall be delivered)) will be automatically cancelled and converted into the right to receive an amount in cash equal to $25.00, plus all accrued and unpaid dividends thereon through and including the closing date of the Company Merger (the Per Share Preferred Consideration), without interest.

At the effective time of the Partnership Merger, each Operating Partnership unit (OP Unit) issued and outstanding immediately prior to the effective time (other than OP Units owned directly or indirectly, by us or any of our wholly owned subsidiaries) will be automatically cancelled and converted into the right to receive Per Share Consideration.

We have made customary representations and warranties in the merger agreement and have agreed to customary covenants, including covenants regarding the operation of our business prior to the closing and covenants prohibiting us from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, except in limited circumstances, prior to the receipt of stockholder approval of the Company Merger, relating to unsolicited proposals that constitute, or are reasonably expected to lead to, a superior proposal.

Ventas has represented and warranted to us that on the closing date the Purchaser Parties will have sufficient funds to satisfy all of the obligations of the Purchaser Parties under the merger agreement.

Completion of the Company Merger was subject to the approval of the affirmative vote of the holders of not less than a majority of the outstanding shares of our common stock, which we received at a special stockholders meeting held on March 9, 2012.

Completion of the merger is also subject to certain other conditions, including completion of the transactions contemplated by the Stock Purchase Agreement, dated December 24, 2011 (the Erdman purchase agreement) by and between Cogdell Spencer TRS Holdings, LLC (TRS Holdings) and Madison DB Acquisition, LLC (Madison DB) pursuant to which Madison DB will acquire all of the shares of our subsidiary, MEA Holdings, Inc. (MEA), which, together with its subsidiaries, engage in design-build and related development business under the Marshall Erdman name (the Erdman business).

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The merger agreement contains certain termination rights for us and Ventas. Upon termination of the merger agreement under specified circumstances, the parties may be required to pay the other party a termination fee. If we are required to pay a termination fee as a result of our entering into an alternative acquisition agreement or completing an alternative transaction, the amount of the termination fee is $15 million plus reimbursement to Ventas for all reasonable out-of-pocket fees and expenses incurred by or on behalf of Ventas in an amount equal to $5 million. The merger agreement also provides that Ventas will be required to pay us a termination fee of $15 million plus expense reimbursement equal to $5 million if the merger agreement is terminated under certain circumstances because Ventas fails to complete the Company Merger or otherwise breaches its obligations under the merger agreement. In certain other termination scenarios, we may be obligated to reimburse Ventas for its reasonable out-of-pocket fees and expenses equal to $5 million, but will not be required to pay Ventas the termination fee.

Sale of Erdman Business

As discussed above, on December 24, 2011, TRS Holdings entered into the Erdman purchase agreement with Madison DB pursuant to which Madison DB will acquire the Erdman business. TRS Holdings will, prior to closing, contribute $11,720,000 (subject to certain adjustments) to MEA. TRS Holdings also has extinguished certain intercompany indebtedness of MEA. At closing, Madison DB will pay $1.00 to TRS Holdings and will contribute $11,720,000 (subject to certain adjustments) in working capital to MEA. Consummation of the transactions contemplated by the Erdman purchase agreement is subject to customary closing conditions, including satisfaction of all conditions to closing of the Mergers.

Mr. David Lubar, one of our former directors, is a principal of the investment fund that is providing Madison DB with its required equity funding. Mr. Lubar was excluded from, and did not participate in, deliberations of our Board of Directors regarding the merger agreement or the Erdman purchase agreement.

Our stockholders will not receive any consideration from the sale of MEA pursuant to the Erdman purchase agreement distinct from the consideration received pursuant to the merger agreement. The terms of the Erdman purchase agreement permitted us to solicit competing proposals for the purchase of the Erdman business for the period from December 24, 2011 until February 10, 2012, which we refer to as the go-shop period. In early January 2012, we, with the assistance of our financial advisor, began actively soliciting indications of interest from third parties regarding the possible acquisition of the Erdman business. We, through our financial advisor, contacted approximately 100 parties that we believed represented credible potential purchasers for the Erdman business. Ten of those parties entered into non-disclosure agreements with us and were permitted to conduct due diligence and invited to consider submitting a competing proposal to purchase the Erdman business on the same terms and conditions reflected in the Erdman purchase agreement, subject to the requirement of a minimum incremental bid of at least $500,000 more than the price to be paid by Madison DB. As of the conclusion of the go-shop period, no bidders submitted a competing proposal for the acquisition of the Erdman business. We have terminated the solicitation process and expect to proceed with a sale of the Erdman business to Madison DB, subject to satisfaction of the conditions set forth in each of the merger agreement and the Erdman purchase agreement.

Assuming all necessary conditions are satisfied, which cannot be guaranteed, the Mergers are expected to close in the second quarter of 2012. Under the terms of each of the merger agreement and the Erdman purchase agreement, if the transactions contemplated thereby have not been completed by June 29, 2012, the parties to those agreements may terminate without penalty.

Our Taxable REIT Subsidiaries (TRSs)

We elected to be taxed as a REIT for U.S. federal income tax purposes. To qualify as a REIT, a specified percentage of our gross income must be derived from real property sources, which would generally exclude our income from providing architectural, construction, development and property management services to third parties. To avoid realizing income would adversely affect our ability to qualify as a REIT, services such as architectural, construction, development, and property management are provided through our TRSs. The Operating Partnership has elected that our wholly owned and controlled TRS Holdings be treated as TRSs.

Business and Growth Strategies

Our primary business objective is to maximize total risk-adjusted return to our stockholders through growth in cash available for distribution and appreciation in the value of our assets. We believe that developing and maintaining customer relationships is critical to this objective.

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Operating Strategy

Our operating strategy consists of the following principal elements:

Strong Relationships with Physicians and Hospitals.

Healthcare is fundamentally a local business. We have developed a reputation based on trust and reliability with physicians and hospitals. These relationships position us to secure new development projects and new property acquisition opportunities with both existing customers and prospective clients. Our strategy is to grow our portfolio by leveraging these relationships and our integrated platform to selectively develop new medical office buildings and healthcare facilities. We believe that physicians particularly value renting space from a trusted and reliable property owner providing an office environment meeting their specialized needs.

Active Management of our Properties.

We have developed a comprehensive approach to property management to maximize the operating performance of our medical office buildings and healthcare facilities, leading to high levels of tenant satisfaction. This fully-integrated property management enables us to provide high quality services on a cost-effective basis. Our operating efficiencies consistently exceed industry standards and control costs for tenants. We manage our properties to create an environment that supports successful medical practices. The properties are clean and conducive to the delivery of top-quality medical care. We believe prosperous tenants will maximize the value of our investments. Therefore, we are committed to maintaining our properties at the highest possible level.

Preferred Locations.

Approximately 73.8% of the net rentable square feet of our wholly-owned properties as of December 31, 2011, are on hospital campuses. On-campus properties are convenient for physician tenants and their patients and drive revenues for our physician-tenants. Many of these properties have a premier location in relation to the hospital, providing our properties with a distinct competitive advantage over alternative medical office space that are located farther away from the hospital. We have found that physician-tenants prefer 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.

A key component of our marketing and operating strategy is maintaining physician-tenant loyalty. A focus on physician-tenant loyalty and the involvement of the physician-tenants and hospitals as investors in our properties provides a stable and diversified tenant base. Our tenants are diversified by type of medical practice, medical specialty and sub-specialty. For the year ended December 31, 2011, no single tenant accounted for more than 6.6% of the annualized rental revenue at our consolidated properties.

Differentiated Focus.

We focus primarily on the ownership, development, redevelopment, acquisition, project delivery, and management of healthcare facilities in the United States of America. This focus allows us to own, develop, redevelop, acquire and manage healthcare facilities more effectively and profitably than our competition. Unlike many other public companies that simply engage in sale/leaseback arrangements in the healthcare real estate sector, we also operate our properties. We believe this focus enables us to achieve additional cash flow growth and appreciation in the value of our assets.

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Development and Acquisition Strategy

Our development and acquisition strategy consists of the following principal elements:

Project delivery.

Our project delivery teams focus on the development and design-build components of the integrated business model. We and our 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. We provide fully integrated healthcare real estate services including strategic planning, development, architecture, construction, and management. We have built strong relationships with leading healthcare systems desiring real estate solution to support the growth of medical communities near their hospitals and regional medical centers. Our focus on healthcare facilities is a competitive advantage over less specialized developers. Further, our regional focus provides extensive local industry knowledge across the United States of America. We believe the network of relationships that we have fostered in both the real estate and healthcare industries provides access to substantial development and acquisitions opportunities.

Selective Development and Acquisitions.

We intend to continue to grow our portfolio of healthcare facilities by selectively acquiring existing healthcare facilities and developing new projects where needed.

Develop and Maintain Strategic Relationships.

We have strategic relationships with physicians, hospitals, not-for-profit agencies and other sponsors of healthcare services to enhance our franchise. We enter into joint ventures with individual physicians, physician groups, hospitals, and local healthcare facilities developers. These joint ventures are a source of development and acquisition opportunities. We offer potential physician-tenants the opportunity to invest in our properties to increase their commitment to the property in which they practice. We work closely with our tenants to cultivate long-term working relationships and to maximize new business opportunities. We carefully consider customer objectives and needs when evaluating an investment opportunity. We believe this philosophy builds long-term relationships and produces franchise locations otherwise unavailable to our competition.

Investment Criteria and Financing.

We intend to expand in our existing markets and enter into new markets meeting our investment criteria. We generally seek customers and assets in locations complementing our existing portfolio. We may selectively pursue portfolio opportunities outside of our existing markets that we believe will create incremental value, provide diversification, and economies of scale.

In assessing a potential development or acquisition opportunity, we focus on the economics of the local medical community and the strength of local hospitals, with an emphasis on projects on a hospital campus or in a strategic growth corridor.

Historically, we financed real property developments and acquisitions through joint ventures with equity provided by physician-tenants, local hospitals, or regional medical centers. In conjunction with maintaining our strategic relationships, we plan to continue entering into joint ventures with individual physicians, physician groups and hospitals.

We have a $200.0 million secured revolving credit facility (the Credit Facility). As of December 31, 2011, we had cash and cash equivalents of approximately $16.7 million and our Credit Facility had approximately $18.5 million of available borrowings, which we can use to finance development and acquisition opportunities. We plan to finance future developments and acquisitions through a combination of cash, borrowings under the Credit Facility, traditional secured mortgage financing, and equity and debt offerings.

Business Segments

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

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Financial information concerning our business segments is presented in Note 7 to the accompanying Consolidated Financial Statements.

Regulation

The following discussion describes certain material U.S. federal laws and regulations that may affect our operations and those of our 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, may affect our operations and those of our tenants.

The regulatory environment remains stringent for healthcare providers. The Stark Law and 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. 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. Also, the Health Information Technology for Economic and Clinical Health Act (HITECH Act), signed into law on February 17, 2009, expanded the extensive requirements related to the privacy and security of individually identifiable health information imposed by regulations issued pursuant to the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and contains enhanced enforcement provisions related to those requirements. In addition, the U.S. Congress enacted on March 23, 2010 the Patient Protection and Affordable Care Act (PPACA) that was intended to have a significant impact on the delivery and reimbursement of healthcare items and services. PPACA is the subject of current repeal initiatives in the U.S. Congress. Further, PPACA is being challenged through lawsuits pending in several U.S. courts. Given this uncertainty, we cannot predict the impact that PPACA or future healthcare legislation may have on us, our business or our tenants.

As our 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 our properties except as discussed below. For example, the Stark law generally prohibits physicians from referring patients to an entity if the physicians have a financial relationship with or ownership interest in the entity and the entity provides designated health services. The Stark law does not apply to physician ownership in our entities because these entities do not own or operate any healthcare providers, 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 healthcare programs to persons in a position to refer such business, also does not apply to ownership in the existing property entities because they 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.

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

Generally, healthcare facilities 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, maintenance, safety and taxation requirements may result in significant unanticipated expenditures, loss of healthcare real estate property sites or other impairments to operations, which may adversely affect our cash flows from operating activities.

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Under the Americans with Disabilities Act of 1990 (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 our properties are not in compliance, we 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 may regulate expansion, including the addition of new beds or services or acquisition of medical equipment, and the construction of healthcare 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 our 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 our medical office buildings and healthcare 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 tenants.

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 a property. Further, under certain circumstances, owners or operators of real property may be held liable for property damage, personal injury and/or natural resource damage 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 our properties, we 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. To assess potential for liability, we conduct an environmental assessment of each property prior to acquisition and manage our properties in accordance with environmental laws. All of our 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, we have engaged qualified and reputable environmental consulting firms to perform environmental site assessments of all of our properties. We are not aware of any environmental issues that are expected to have materially impacted the operations of any property.

Insurance

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage, rental loss insurance, as well as commercial liability insurance, provided by reputable companies and with policy specifications, limits, and deductibles customarily carried for similar properties. Furthermore, we believe our businesses and assets are likewise adequately insured against casualty loss and third party liabilities. We actively manage the insurance component of the budget for each project. We engage a risk management consultant to assist with this process. Most of our 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 our premiums.

Our business activities may expose us to potential liability under various environmental laws and under workplace health and safety regulations. We are unable to predict these potential liabilities. We maintain a comprehensive general liability policy with an umbrella policy that covers losses beyond the general liability limits. We also maintain professional errors and omissions liability and contractor's pollution liability insurance policies in amounts that we believe are adequate coverage for our business.

We obtain insurance coverage through a broker experienced in the professional liability field. The broker and our risk manager regularly review the adequacy of our 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 our insurance policies or paid by our carriers.

We evaluate 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 we determine that a claim has no merit or is not probable or reasonably estimable. Partially or completely uninsured claims, if successful and of significant magnitude, may have a material adverse effect on our business.

Competition

We compete in developing, acquiring, and leasing medical facilities with public and private real estate companies and investors. We believe we have a depth of knowledge and experience in working with physicians, hospitals, not-for-profit agencies, and other sponsors of healthcare services making us an attractive real estate partner.

The market for design-build services is generally highly competitive and fragmented. Our competitors are numerous, consisting mainly of small and regional private firms. We believe we are well positioned to compete in our markets because of our healthcare industry specialization, long-term client relationships, and integrated delivery of services.

Employees

As of December 31, 2011, we had 370 employees. Our professionals perform property management, acquisitions, real estate development, architecture, engineering, construction management and materials management services. Less than 5% of our employees are covered by collective bargaining agreements, which are subject to amendment in November 2012, or by specific labor agreements, which expire upon completion of the relevant project. There are no material disagreements with employees and we consider the relationships with our employees to be favorable.

Equity Offerings

In January 2011, we issued approximately 0.3 million shares of 8.500% Series A Cumulative Redeemable Perpetual Preferred Stock (Series A preferred shares) in a follow-on offering, resulting in net proceeds of approximately $8.2 million. The initial offering of Series A preferred shares occurred in December 2010. The net proceeds were used to reduce borrowings under the Credit Facility, to fund build to suit development projects, and for working capital and other general corporate purposes.

In December 2010, we sold 2.6 million shares of our 8.500% Series A Cumulative Redeemable Perpetual Preferred Stock, raising net proceeds of approximately $62.6 million. We used the net proceeds to repay in full the $50.0 million outstanding balance under a senior secured term loan that was scheduled to mature in March 2011, to reduce borrowings under the Credit Facility, to fund build to suit development projects, and for working capital and other general corporate purposes.

In May 2010, we issued 7.1 million shares of common stock, resulting in net proceeds to us of $47.6 million. The net proceeds were used to fund development projects, reduce borrowings under the Credit Facility, and for working capital purposes.

Available Information

We file our 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) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our Website is www.cogdell.com. Our reports on Forms 10-K, 10-Q and 8-K, and all amendments to those reports are posted on our Website as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The contents of our Website are not incorporated by reference herein.

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Item 1A. ***Risk Factors***

Many risk factors affect our business. As discussed above, we have entered into the merger agreement with Ventas. The risks discussed below affect our business currently and many of those will continue to affect our business if the Mergers are completed. Certain of the risks below will affect our business only if the Mergers are not completed and we continue to operate as a stand-alone entity. The occurrence of a risk factor may materially adversely affect our business, financial condition, results of operations, ability to pay distributions to our stockholders and the trading price of our common stock.

Risks Related to the Mergers

Uncertainty regarding the proposed Mergers and the diversion of management s attention from our ongoing business operations could adversely affect our financial results.

Uncertainty about the effect of the Mergers on employees and tenants may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel, and could cause tenants and others who deal with us to seek to change existing business relationships. Employee retention and recruitment may be particularly challenging, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

In addition, the pursuit of the Mergers and the preparation for the integration may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business operations and any difficulties encountered in the transition and integration process could affect our financial results.

We are subject to various contractual restrictions and requirements while the Mergers are pending that could adversely affect our financial results.

The merger agreement restricts us, without Ventas consent, from making certain acquisitions and dispositions, engaging in leasing activity, engaging in capital raising transactions and taking other specified actions while the Mergers are pending. In addition, the merger agreement requires that we sell the Erdman design-build and development business prior to closing and that we take steps to separate the Erdman business from the rest of our business pending the closing. These restrictions and requirements may prevent us from pursuing attractive business opportunities and making other changes to our business prior to completion of the Mergers or termination of the merger agreement.

We may be unable to obtain satisfaction of all conditions to complete the Mergers in the anticipated timeframe, or at all.

Completion of the Mergers is contingent upon the sale of the Erdman business, as well as customary closing conditions, including the absence of any injunction and certain other litigation. We may be unable to satisfy all the conditions to the Mergers, in which case the Mergers will not be consummated. In addition, satisfying the conditions to, and completion of, the merger may take longer than, and could cost more than, we expect. Any delay in completing the Mergers may adversely affect the benefits that we and Ventas expect to achieve from the Mergers and the integration of our businesses.

If the Mergers are not completed, our financial results may be adversely affected and we will be subject to several risks, including but not limited to:

- payment to Ventas of a termination fee of $15 million, plus $5 million as reimbursement of its expenses, as specified in the merger agreement, depending on the nature of the termination; and
- being subject to litigation related to any failure to complete the Mergers.

Any delay or inability to satisfy all conditions to complete the Mergers, or failure to complete the Mergers could negatively affect our future business, financial condition or results of operation.

Certain of our directors and executive officers may have interests in the Mergers that may differ from the interests of our stockholders, including, if the Mergers are completed, the receipt of financial and other benefits.

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Certain of our executive officers and directors may have interests in the Mergers that are in addition to, and may be different from, the interests of our stockholders generally. These interests include acceleration of vesting and payouts of their restricted stock and LTIP units, the right to potentially receive cash severance payments and other benefits under executive employment agreements.

Pending litigation against us and the current members of our board of directors could result in an injunction preventing completion of the Mergers or the payment of damages in the event the Mergers are completed.

On December 29, 2011, a complaint was filed in the Superior Court for State of North Carolina, Mecklenburg County, against us, our directors and Ventas on behalf of a putative class of similarly situated investors, alleging that the our board of directors breached its fiduciary duties regarding the Company Merger and that Ventas aided and abetted the alleged breach of fiduciary duties. Beginning on January 4, 2012, six other putative class action suits were filed in the Maryland Circuit Court for Baltimore City against the same defendants and alleging similar breach of fiduciary duty and aiding and abetting claims, although certain complaints also named our Operating Partnership, MergerSub and OP MergerSub as defendants. On January 27, 2012, we also received a letter from an entity purporting to be a stockholder demanding that the board terminate the Company Merger and the sale of the Erdman business and that the board conduct an investigation into the Company Merger and the sale of the Erdman business. The letter also made a request for access to certain books and records of the company related to the Company Merger and the sale of the Erdman business. The cases pending in Maryland were consolidated by the Court on January 31, 2012. On February 3, 2012, the plaintiff in the North Carolina action filed an amended complaint, and on February 9, 2012, the plaintiffs in the Maryland action filed an amended complaint, including the class and derivative actions. All of the pending cases ask that the Company Merger be enjoined and seek other unspecified monetary relief. On February 21, 2012, defendants moved to dismiss the amended complaint.

On February 29, 2012, we entered into a memorandum of understanding with the plaintiffs in the Maryland and North Carolina cases regarding the settlement of the pending claims. Pursuant to the terms of the proposed settlement, we agreed to make certain supplemental disclosures related to the proposed Company Merger. The memorandum of understanding contemplates that the parties will enter into a settlement agreement after a period of confirmatory discovery, which will be subject to customary conditions, including court approval following notice to our stockholders. In the event the parties enter into a settlement agreement, a hearing will be scheduled in which the Maryland Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the Court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the proposed Merger, the Merger Agreement, and any disclosure made in connection therewith, among other claims, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement.

In addition, in connection with the settlement, the parties contemplate that plaintiffs counsel will file a petition in the Maryland Court for an award of attorneys fees and expenses to be paid by or on behalf of Defendants, which Defendants may oppose. Defendants will pay or cause to be paid any attorneys fees and expenses awarded by the Maryland Court. There can be no assurance that the parties will ultimately enter into a settlement agreement or that the Maryland Court will approve the settlement even if the parties were to enter into a settlement agreement. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

One of the conditions to the closing of the Mergers is that no decree, ruling, judgment, decision, order or injunction shall have been entered by any court of competent jurisdiction that has the effect of prohibiting or restraining the completion of the Mergers. If for any reason the cases are not settled and if any of the plaintiffs are successful in obtaining an injunction prohibiting the defendants from completing the Mergers, then such injunction may prevent the Mergers from becoming effective or from becoming effective within the expected timeframe. [In addition, if any suit, action or proceeding before any court or other governmental entity shall have been instituted or shall be pending, with respect to certain matters disclosed in the merger agreement disclosure schedule, where an unfavorable outcome in such suit, action or proceeding would, in the sole and absolute discretion of Ventas, adversely affect the anticipated business or economic benefits to Ventas and its affiliates of the transactions contemplated by the merger agreement, the Mergers will not be completed. If completion of the Mergers is prevented or delayed, it could result in substantial costs to us. In addition, we could incur costs associated with the indemnification of our directors and officers.

Risks Related to our Properties and Operations

Our real estate investments are concentrated in medical office buildings and healthcare facilities, making us more vulnerable economically than if our investments were diversified.

As a REIT, we invest primarily in real estate. Within the real estate industry, we selectively own, develop, redevelop, acquire, and manage medical facilities. We are 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 our business strategy to invest primarily in medical facilities. A downturn in the medical facilities industry or in the commercial real estate industry could materially adversely affect the value of our properties. A downturn in the healthcare industry could negatively affect our tenants ability to make rent payments to us, which may have a material adverse effect on our business, financial condition, results of operations, and ability to make distributions to our stockholders. These adverse effects may be more pronounced than if we held a diverse portfolio of investments outside of real estate or outside of medical facilities.

We depend on significant tenants.

For the year ended December 31, 2011, our five largest tenants represented $21.5 million, or 23.2%, of the annualized rent generated by our properties. Our five largest tenants based on annualized rents are Carolinas HealthCare System, Bon Secours St. Francis Hospital, East Jefferson General Hospital, Lancaster General Hospital, and Palmetto Health Alliance. Our significant tenants, as well as other 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 default under their leases. In the event of any tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

Recent market conditions in the U.S. and European economies, and other events or circumstances beyond our control, may continue to adversely affect our industry, business, results of operations, contractual commitments, and access to capital.

Recent market conditions and continued uncertainty in the U.S. and European economies, including inflation, deflation or stagflation, the systemic impact of high levels of unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a distressed real estate market have contributed to increased market volatility and business and consumer confidence. This difficult operating environment may continue to adversely affect our ability to generate revenues and/or increase costs, thereby reducing our operating income and earnings. It may continue to adversely impact the ability of our tenants to maintain occupancy and rates in our properties. These economic conditions may continue to have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Adverse economic or other conditions in the markets in which we do business may negatively affect our occupancy levels and rental rates and therefore our operating results.

Our operating results are dependent upon maximizing occupancy levels and rental rates in our portfolio. Adverse economic or other conditions in the markets in which we operate may lower our occupancy levels and limit our ability to increase rents or require us to offer rental discounts. The following factors are primary among those which may adversely affect the operating performance of our properties:

- periods of economic slowdown or recession, rising interest rates or declining demand for medical office buildings and healthcare 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 we operate, 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 facilities or a reduction in demand for medical office buildings and healthcare facilities in a particular area;

negative perceptions by prospective tenants of the safety, convenience and attractiveness of our 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 tax, real estate and zoning laws.

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

The majority of our 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 us.

Our consolidated wholly-owned and joint venture properties located in Georgia, North Carolina, and South Carolina, provided approximately 8.4%, 21.7% and 24.3%, respectively, of our total annualized rent for the year ended December 31, 2011. As a result of the geographic concentration of properties in these markets, we are 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, our business, financial condition, results of operations, our ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

A component of our growth strategy has included development and redevelopment opportunities. To the extent that we continue to engage in any development or redevelopment projects, we will be subject to the following risks normally associated with these projects:

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

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

we may encounter delays or denials 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 our investment not being profitable; and

start-up costs may be higher than anticipated.

In deciding whether to develop or redevelop a particular property, we make certain assumptions regarding the expected future performance of that property. We may underestimate the costs necessary to bring the property up to the standards established for its intended market position or we 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 our business, financial condition, results of operations, our ability to make distributions to our stockholders and the trading price of our stock.

We may in the future develop medical facilities in geographic regions where we do not currently have a significant presence and where we do not possess the same level of familiarity, which could adversely affect our ability to develop such properties successfully or at all or to achieve expected performance.

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

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

We may not be successful in identifying and consummating suitable acquisitions or investment opportunities, which may impede our growth and negatively affect our results of operations.

Our ability to expand through acquisitions has been a component of our long-term growth strategy and has required us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. To the extent that we continue to make new acquisitions or investments, we may not be successful in identifying suitable properties or other assets that meet our 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 our growth.

To the extent that we acquire properties in the future, our ability to acquire such properties on attractive terms and successfully integrate and operate them may be constrained by the following factors:

- 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 our profitability;
- unsatisfactory results of our due diligence investigations or failure to meet other customary closing conditions;
- we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties; and
- we 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 we 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, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

We may not be able to obtain additional capital to further our business objectives.

Our ability to develop, redevelop or acquire properties depends upon our ability to obtain capital. During the recent financial and economic crisis, the global economy, including the capital and credit markets, experienced a period of substantial turmoil and uncertainty, which restricted the availability of capital. A lack of capital may cause a decrease in the level of new investment activity by publicly traded real estate companies. Furthermore, a prolonged period in which we 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 us from acquiring, financing and completing desirable investments, and which could otherwise adversely affect our business. If any of these risks are realized, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

If we are unable to promptly re-let our properties on terms that are favorable to us, if at all, or we are required to undertake significant capital expenditures to attract new tenants, then our business and results of operations would be adversely affected.

A substantial number of our leases are on a multiple year basis. As of December 31, 2011, leases representing 15.5% of our net rentable square feet will expire in 2012, 9.5% in 2013 and 9.8% in 2014. These expirations would account for 16.3%, 9.3% and 10.3% of our annualized rent, respectively. Approximately 61.9% of the square feet of our properties and 61.3% of the number of our

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properties are subject to certain restrictions. These restrictions include limits on our 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, in order to maintain occupancy, we have had to lower our rental rates to re-let certain spaces, and we may be required to do so again in the future, which could impede our growth. We cannot assure you that we will be able to re-let space on terms that are favorable to us or at all. Further, due to the age of some of our properties, as well as the specialized nature of our tenants, we have been required to make significant capital expenditures to renovate or reconfigure space to attract new tenants and we may be required to do so in the future. If we are unable to promptly re-let our properties, if the rates upon such re-letting are significantly lower than expected, or if we are required to undertake significant capital expenditures in connection with re-letting units, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Certain of our properties may not have efficient alternative uses.

Some of our properties, such as our ambulatory surgery centers, are specialized healthcare facilities. If we or our tenants terminate the leases for these properties or our tenants lose their regulatory authority to operate such properties, we may not be able to locate suitable replacement tenants to lease the properties for their specialized uses. Alternatively, we 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 our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

We face competition for the acquisition of medical facilities, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities engaged in real estate investment activities for acquisitions of medical facilities, including national, regional and local operators, acquirers and developers of healthcare real estate properties. The competition for medical facilities may significantly increase the price we must pay for medical facilities or other assets we seek to acquire and our competitors may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our 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 may 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, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for medical facilities or other assets, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

We may not be successful in integrating and operating acquired properties.

If we make acquisitions of medical office buildings and healthcare facilities in the future, we will be required to integrate them into our existing portfolio. The acquired properties may turn out to be less compatible with our growth strategy than originally anticipated, may cause disruptions in our 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 our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Our medical facilities, their associated hospitals and our tenants may be unable to compete successfully.

Our medical facilities and their associated hospitals often face competition from nearby hospitals and other medical facilities 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 our buildings.

Similarly, our tenants face competition from other medical practices in nearby hospitals and other healthcare facilities. Our tenants failure to compete successfully with these other practices could adversely affect their ability to make rental payments, which could adversely affect our rental revenues. Further, from

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time to time and for reasons beyond our 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 our tenants ability to make rental payments, which could adversely affect our rental revenues.

We depend upon its tenants to operate their businesses in a manner which generates revenue sufficient to allow them to meet their obligations to us, including their obligation to pay rent. Any reduction in rental revenues resulting from the inability of our medical office buildings and healthcare facilities, their associated hospitals and our tenants to compete successfully may have a material adverse effect on our business, financial condition and results of operations.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage and rental loss insurance for our 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, we could lose both our investment in and anticipated profits and cash flow from a property. If any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. In addition, future lenders may require certain insurance coverage, and our failure to obtain such insurance could constitute a default under loan agreements. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

We have co-invested with third parties through partnerships, joint ventures, co-tenancies and 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, we 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 our partners, co-tenants or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, our partners or co-venturers might at any time have economic or other business interests or goals, which are inconsistent with our business interests or goals. These investments may also have the potential risk of impasses on decisions such as a sale, because neither we nor the partner, co-tenant or co-venturer has 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, we may in specific circumstances be liable for the actions of third-party partners, co-tenants or co-venturers. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Our mortgage agreements and ground and air rights leases contain certain provisions that may limit our ability to sell certain of our medical office buildings and healthcare facilities.

In order to assign or transfer our rights and obligations under certain of our mortgage agreements, we 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 and air rights leases on certain of our 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 our mortgage agreements and ground and air rights leases may limit our ability to sell certain of our medical office buildings and healthcare facilities which, in turn, could adversely impact the price realized from any such sale. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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Thirty-four of our consolidated wholly-owned and joint venture properties are subject to ground or air rights leases that expose us to the loss of such properties upon breach or termination of the ground or air rights leases.

We have 34 consolidated wholly-owned and joint venture properties that are subject to leasehold interests in the land or air underlying the buildings and we may acquire additional buildings in the future that are subject to similar ground or air rights leases. As of December 31, 2011, these 34 consolidated wholly-owned and joint venture properties represent 53.7% of our total net rentable square feet. As lessee under a ground or air rights lease, we are exposed to the possibility of losing the property upon termination, or an earlier breach by us, of the ground lease, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Environmental compliance costs and liabilities associated with operating our properties may affect our 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 affecting the property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances or materials. The presence of hazardous substances or materials, or the failure to properly remediate these substances, may adversely affect the owner s or operator s ability to lease, sell or rent the property or to borrow using the 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 the facility is owned or operated by the 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 may 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 our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our 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 our business, financial condition, results of operations, and ability to make distributions to our stockholders, and the trading price of our stock.

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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 our 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. We have not conducted an audit or investigation of all of our properties to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of our properties is not in compliance with the ADA or other related legislation, then we would be required to incur additional costs to bring the facility into compliance. If we incur substantial costs to comply with the ADA or other related legislation, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

The bankruptcy or insolvency of our tenants under our leases could seriously harm our operating results and financial condition.

We receive a substantial amount of our income as rent payments under leases of space in our properties. We have no control over the success or failure of our tenants businesses and, at any time, any of our tenants may experience a downturn in its business that may weaken its financial condition. As a result, our 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 a tenant s lease and, particularly in the case of a large tenant, may have a material adverse effect on our business, financial condition and results of operations and our ability to make distributions to our stockholders.

If tenants are unable to comply with the terms of our leases, we may be forced to modify lease terms in ways that are unfavorable to us. Alternatively, the failure of a tenant to perform under a lease or to extend a lease upon expiration of its term could require us to declare a default, repossess the property, find a suitable replacement tenant, operate the property, or sell the property. There is no assurance that we will be able to lease the property on substantially equivalent or better terms than the prior lease, or at all. We 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 us.

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

Any bankruptcy filings by or relating to one of our tenants could bar all efforts by us to collect pre-bankruptcy debts from that lessee or seize its property, unless we receive an order permitting us to do so from the bankruptcy court, which we may be unable to obtain. A tenant bankruptcy could also delay our 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 us in full. However, if a tenant rejects the lease while in bankruptcy, we would have only a general unsecured claim for pre-petition damages. Any unsecured claim we hold may be paid only to the extent that funds are available and only in the same percentage paid to all other holders of unsecured claims. It is possible that we may recover substantially less than the full value of any unsecured claims we hold, if any, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock. Furthermore, dealing with a tenant bankruptcy or other default may divert management s attention and cause us to incur substantial legal and other costs.

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Risks Related to our Design-Build and Development Segment

Continuing adverse economic conditions could cause our clients to delay, curtail or cancel proposed or existing projects, which could result in a decrease in demand for our services.

The demand for our 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 our clients willingness or ability to make capital expenditures or otherwise reduce their spending to purchase our services, which could result in reduced revenues or margins for our business. Many of our clients finance their projects through cash flow from operations, the incurrence of debt or the issuance of equity. Furthermore, our clients 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 our clients cash flow from operations and the lack of availability of debt or equity financing could cause our clients to delay, curtail or cancel proposed or existing projects, which could result in a decrease in demand for our services. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Our results of operations depend upon the award of new design-build contracts and the nature and timing of those awards.

Our design-build revenues are derived primarily from contracts awarded on a project-by-project basis. Generally, it is very difficult to predict whether and when we 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 our design-build revenues are derived primarily from these contracts, our 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 our clients seek to purchase, and increased competition during a period of economic decline could result in we accepting contract terms that are less favorable to we than it might otherwise be able to negotiate. Changes in our mix of services or a less favorable contracting environment may cause our revenues and margins to decline. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

If we experience delays and/or defaults in client payments, we could be unable to recover all expenditures.

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

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

Most of our design-build contracts are currently negotiated guaranteed maximum price or fixed price contracts, giving our clients a clear understanding of the project s costs but also locking us in so that we bear a significant portion or all of the risk for cost overruns. Under these guaranteed maximum price or fixed price contracts, contract prices payable by clients 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 we encounter 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 us, 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 our 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 we which delay the performance or completion of a project or increase our cost of performing the services and work to complete the project), cost overruns may occur, and we 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 which may negatively affect our cash flows and results of operations. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

The nature of our design-build and development business creates exposure to potential liabilities and disputes which may reduce our profits.

We engage in engineering, architecture, construction and other services where design, construction or systems failures can result in substantial injury or damage to clients and/or third parties. In addition, the nature of our business results in clients, subcontractors, vendors, suppliers and governmental authorities occasionally asserting claims against us for damages or losses for which they believe we are 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 our design-build contracts do not limit our liability for damages or losses. These claims often arise in the normal course of our business, and may be asserted with respect to projects completed and/or past occurrences. When it is determined that we have liability, such liability may not be covered by insurance or, if covered, the dollar amount of the liability may exceed our 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 our reputation within its industry and among its client base, making it more difficult to obtain future projects. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Environmental compliance costs and liabilities associated with our business may affect our results of operation.

Our 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.

Our projects often involve highly regulated materials, including hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us 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 us 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 our ability to operate its business and complete contracted projects.

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In addition, under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), and comparable state laws, we 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 we are subject to 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 us. Any failure to comply with these laws and regulations could materially adversely affect our business, financial condition, results of operations, and ability to make distributions to our stockholders, and the trading price of our stock.

Risks Related to the Healthcare Industry

Future changes to healthcare laws, implementation of healthcare legislation and adverse trends in healthcare provider operations may negatively affect our lease revenues and our ability to make distributions to our 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 government 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 our tenants and, in turn, our lease revenues, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

In addition, on March 23, 2010, the U.S. Congress enacted the Patient Protection and Affordable Care Act (PPACA) that was intended to have a significant impact on the delivery and reimbursement of healthcare items and services. Currently, PPACA is the subject of repeal initiatives in the U.S. Congress. In addition, PPACA is being challenged through lawsuits pending in several U.S. courts. See Business Regulation. While any preliminary decisions in these lawsuits are subject to appeal and while it is unclear whether any provisions of PPACA will be amended or repealed due to current legislative initiatives, the uncertainty concerning whether and when any or all of the provisions of PPACA will be implemented, or if implemented, their impact on the healthcare delivery system as a whole, make it difficult to predict the corresponding impact on our tenants. The implementation of PPACA or future healthcare legislation may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

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

Sources of revenue for our tenants may include the U.S. federal Medicare program, state Medicaid programs, private insurance carriers and health maintenance organizations, among others. Declining reimbursement from government and private payors has increased pressure on healthcare providers to continue to control or reduce costs. Additional reductions in reimbursement may result from the implementation of PPACA or from future healthcare reform legislation enacted by the U.S. Congress or from regulations issued by the Centers for Medicare and Medicaid Services. Similar efforts by private payors to reduce reimbursement in order to attempt to reduce healthcare costs will likely continue. Budget reduction measures by state governments are likely to result in further reductions in reimbursement from Medicaid and other state funded healthcare programs. In addition, the failure of our tenants to comply with various laws and regulations could jeopardize their ability to continue participating in Medicare, Medicaid and other government payment programs. A reduction in reimbursements to our tenants from third party payors for any reason, including without limitation exclusion from participation in any government payor program, could adversely affect our tenants ability to make rent payments to us, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

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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 our tenants to make rent payments to us.

The healthcare industry is heavily regulated by U.S. federal, state and local governmental bodies. Our 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, and the privacy and security of individually identifiable health information. Also, PPACA included amendments to laws that may apply to our tenants which enhance the ability of the government to investigate, enforce and impose fines and penalties for, violations of these laws. This enhanced government authority to enforce these laws and the imposition of any resulting fines or penalties upon one of our tenants or associated hospitals could jeopardize that tenant s ability to operate or to make rent payments or affect the level of occupancy in our medical office buildings or healthcare facilities associated with that hospital, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

In addition, some state and local laws regulate new healthcare services and the expansion of existing healthcare services, including the addition of new beds or services, the acquisition of medical equipment, and the construction of healthcare related facilities, by requiring a certificate of need or other comparable approvals. These approvals are 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, equipment or facility. 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 our 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 our medical office buildings and healthcare 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 our tenants ability to make rent payments to us, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Privacy and security regulations issued pursuant to Health Insurance Portability and Accountability Act, and subsequent amendments thereto included in the Health Information Technology for Economic and Clinical Health Act (as amended, HIPAA), extensively regulate the use and disclosure of individually identifiable health information. These laws and regulations: (i) permit the U.S. Department of Health and Human Services to impose civil monetary penalties; (ii) allow state attorneys general to bring civil actions for HIPAA violations; and (iii) require the U.S. Department of Health and Human Services to conduct audits of covered entities, such as healthcare providers, to determine their compliance with HIPAA. The cost of complying with these requirements or the imposition of penalties for HIPAA violations could adversely affect the ability of a tenant to make rent payments to us, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Our tenants are subject to the Stark Law and fraud and abuse laws, the violation of which by a tenant may jeopardize the tenant s ability to make rent payments to us.

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 healthcare programs, including the Medicare and Medicaid programs. Our lease arrangements with certain tenants may also be subject to the Stark Law and fraud and abuse laws, to the extent these lease arrangements create indirect financial relationships between the tenants and us that are subject to these laws and regulations.

These laws that may apply to our tenants 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 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. PPACA included amendments to each of these laws which enhance the ability of the government to investigate, enforce, and impose fines and penalties for violation of these laws. The enhanced government authority to enforce these laws and the imposition of any resulting penalties upon one of our tenants or associated hospitals could jeopardize that tenant s ability to operate or to make rent payments or affect the level of occupancy in our medical office buildings or healthcare facilities associated with that hospital, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Risks Related to the Real Estate Industry

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

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our 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 our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a property, we may agree to transfer restrictions that materially restrict us 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 our ability to sell a property even if we deem it necessary or appropriate. These facts and any others that would impede our ability to respond to adverse changes in the performance of its properties may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our 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 us to comply with re-zoning restrictions or environmental regulations.

We 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 us 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

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community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real property could restrict our ability to earn its targeted rate of return on an investment or adversely affect our ability to pay operating expenses, which may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Risks Related to Debt Financings

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

At December 31, 2011, we have approximately $453.6 million of outstanding indebtedness, of which $277.8 million is mortgage debt that is secured by performing properties, $95.0 million is outstanding under our Credit Facility, and $80.8 million is outstanding under our Term Loan Facility. Approximately $16.4 million and $11.6 million of our outstanding indebtedness will mature in 2012 and 2013, respectively. Additionally, we will repay approximately $5.2 million and $6.0 million in principal amortization in 2012 and 2013, respectively. If we engage in future development or redevelopment projects or acquisitions, we expect to incur additional debt in connection with such projects and acquisitions, which may include borrowings under our Credit Facility. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through our Credit Facility, refinancing, and future offerings of equity and/or debt.

If we are required to utilize our 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 our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- after debt service, the amount available for distributions to our stockholders is reduced;
- our debt level could place us at a competitive disadvantage compared to our competitors with less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;

- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- we may violate financial covenants which would cause a default on our obligations;
- we may inadvertently violate non-financial restrictive covenants in our loan documents, such as covenants that require us to maintain the existence of entities, maintain insurance policies and provide financial statements, which would entitle the lenders to accelerate our debt obligations; and
- we may default under any one of our 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 our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

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

Our results of operations may be materially affected by conditions in the financial markets and the economy generally. Over the past several years, uncertainty over inflation, energy costs, geopolitical issues, unemployment, the availability and cost of credit, the mortgage market and a real estate market have contributed to increased volatility in access to and cost of capital.

Since 2008, housing market conditions have resulted in significant asset write-downs by financial institutions, which have caused many financial institutions to seek additional capital, merge with other institutions and, in some cases, to fail. We rely on the availability of financing to execute our business strategy. Institutions from which we 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. 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 us 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 us to obtain financing on attractive terms, or at all, and our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Our ability to pay distributions is dependent on a number of factors and is not assured, and our distributions to stockholders may decline at any time.

We are prevented by the terms of the merger agreement from paying any additional distributions on our shares of common stock prior to closing. If we do make any future distributions, our ability to make such distributions depends upon a variety of factors, including efficient management of our properties and the successful implementation by us of a variety of our 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 our earnings, our financial condition, the REIT distribution requirements and other factors that the Board of Directors may consider from time to time. We cannot assure you that the level of our distributions will increase over time or that we will be able to maintain our future distributions at levels that equal or exceed our historical distributions. We may be required to fund future distributions either from borrowings under our 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. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Our outstanding debt obligations prohibit us from redeeming the Series A Preferred Stock.

We are, and may in the future become, party to agreements and instruments, which, among other things, restrict or prevent the payment of dividends on or the redemption of our classes and series of capital stock. Our Credit Facility prohibits us from redeeming or otherwise repurchasing any shares of our stock, including the Series A Preferred Stock, during the term of the Credit Facility. This restriction may prohibit us from redeeming the outstanding Series A Preferred Stock even if we believe to do so would be in the best interests of our stockholders. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Our organizational documents contain no limitations on the amount of debt we may incur.

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

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

As of December 31, 2011, we have approximately $453.6 million of outstanding indebtedness, of which approximately $215.4 million, or 47.5%, 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 3.6% per year as of December 31, 2011. Increases in interest rates on this variable rate debt would increase our interest expense, which could adversely affect our cash flow and our 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 $2.2 million annually. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

In certain cases, we may seek to manage our 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 our exposure to interest rate changes and that a court could rule that such an agreement is not legally enforceable. In addition, we may be limited in the type and amount of hedging transactions we may use in the future by our 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 our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

Our Credit Facility and our Term Loan Facility contain covenants that could limit our operations and our ability to make distributions to our stockholders.

Our Credit Facility and our Term Loan Facility contain financial and operating covenants, including tangible net worth requirements, fixed charge coverage and debt ratios and other limitations on our ability to make distributions or other payments to our stockholders (other than those required by the Code), sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions.

The Credit Facility and the Term Loan Facility contain customary terms and conditions for credit facilities of this type including, but not limited to: (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, maintenance of our REIT qualification and listing on the New York Stock Exchange (the NYSE), and (2) negative covenants relating to restrictions on redemptions of preferred stock, 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 Credit Facility and the Term Loan Facility have financial covenants to be met by us at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date of March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00).

These covenants may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders. Failure to comply with any of the covenants in the Credit Facility and the Term Loan Facility could result in a default. This could cause one or more of our lenders to accelerate the timing of payments and may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

If lenders under our Credit Facility fail to meet their funding commitments, our financial position would be negatively impacted.

Access to external capital on favorable terms is critical to our success in growing and maintaining its portfolio. If financial institutions within our Credit Facility were unwilling or unable to meet their respective funding commitments to us, any such failure could have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

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Risks Related to our Organization and Structure

Our business could be harmed if key personnel terminate their employment with us.

Our success depends, to a significant extent, on the continued services of members of our senior management team. In addition, our ability to continue to acquire and develop properties depends on the significant relationships our senior management team has developed. There is no guarantee that any of them will remain employed by us. We do not maintain key person life insurance on any of our officers. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

We may pursue less vigorous enforcement of terms of contribution and other agreements because of conflicts of interest with certain of our directors and officers.

Mr. Charles M. Handy, our Chief Financial Officer, Executive Vice President and Secretary, and other members of our management team and board of directors, have direct or indirect ownership interests in certain properties contributed to the Operating Partnership at the initial public offering. We, under the agreements relating to the contribution of such interests, are entitled to indemnification and damages in the event of breaches of representations or warranties made by the contributors. We may choose not to enforce, or to enforce less vigorously, our rights under these agreements because of our desire to maintain our ongoing relationships with the individual party to these agreements. In connection with the acquisition of MEA Holdings, Inc. Holdings, Inc., we entered into various agreements with MEA Holdings, Inc., including the merger agreement, pursuant to which we are entitled to indemnification and damages in the event of breaches of representations and warranties made by MEA Holdings, Inc. Because certain other key employees and personnel were also former owners, officers and directors of MEA Holdings, Inc., we may choose not to enforce, or to enforce less vigorously, our rights under these agreements. In addition, we are party to an employment agreement with Mr. Handy, which provide for additional severance following termination of employment if we elect 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 us, 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 us. None of these agreements were negotiated on an arm s-length basis. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Conflicts of interest could arise as a result of our UPREIT structure.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and the Operating Partnership or any partner thereof, on the other. Our directors and officers have duties to us under applicable Maryland law in connection with their management of us. At the same time, we, through our wholly-owned subsidiary, have 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. Our duties, through our wholly-owned subsidiary, as a general partner to the Operating Partnership and its partners may come into conflict with the duties of our directors and officers. The partnership agreement of the Operating Partnership does not require us to resolve such conflicts in favor of either our 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 our liability by providing that neither we, nor our wholly-owned Maryland business trust subsidiary, as the general partner of the Operating Partnership, nor any of we 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 us, our affiliates and each of our 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 we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of (1) 7.75% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock, (2) 7.75% (by value or by number of shares, whichever is more restrictive) of our outstanding Series A Preferred Stock or (3) 7.75% (by value or by number of shares, whichever is more restrictive) of our 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 our qualification as a REIT. These restrictions on ownership will not apply if the Board of Directors determines that it is no longer in our 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 our common stock, or otherwise be in the best interests of our stockholders. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

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 us that might involve a premium price for holders of our common stock or otherwise be in their best interests, including:

- business combination provisions that, subject to certain limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our 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 us (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 our 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 the Company Merger from the business combination provisions discussed above.

In addition, the Board of Directors has 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 us and these persons. As a result, these persons may be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by us with the supermajority vote requirements and the other provisions of the statute. In addition, our 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 our 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 our 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 us that might involve a premium to the market price of our common stock or otherwise be in our stockholders best interests. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

Our charter authorizes the Board of Directors to cause us to issue additional authorized but unissued shares of common stock or preferred stock, and to amend our 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 or preferred 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 us to issue additional shares of our common stock or Series A Preferred Stock, or establish an additional 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 our common stock, or otherwise be in the best interests of our stockholders. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

Our rights and the rights of our stockholders to take action to recover money damages from our directors and officers are limited.

Our charter eliminates our directors and officers liability to we and our 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. Our charter authorizes us, and our bylaws require us, to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

You will have limited ability as a stockholder to prevent us from making any changes to we policies that you believe could harm our 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, our 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 our stockholders. This means that our stockholders will have limited control over changes in our policies. Such changes in our policies intended to improve, expand or diversify our business may not have the anticipated effects and consequently may have a material adverse effect on our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock.

To the extent our distributions represent a return of capital for U.S. federal income tax purposes you could recognize an increased capital gain upon a subsequent sale by you of our common stock or preferred stock.

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Distributions in excess of our current and accumulated earnings and profits and not treated by us 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 dispositions 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.

Risks Related to Qualification and Operation as a REIT

Our failure to qualify or remain qualified as a REIT would have significant adverse consequences to us.

We intend to operate in a manner that will allow us to qualify as a REIT for U.S. federal income tax purposes under the Code. We have not requested and do not plan to request a ruling from the IRS that we qualify as a REIT, and the statements in our prospectus and other filings are not binding on the IRS or any court. If we fail to qualify or lose our qualification as a REIT, we will face serious tax consequences that would substantially reduce the funds available for distribution to our stockholders for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to U.S. federal income tax at regular corporate rates;
- we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we lose our qualification as a REIT, we will not be required to make distributions to stockholders, and all distributions to our stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our U.S. individual stockholders would be taxed on our dividends at a maximum U.S. federal income tax rate of 15% (through 2012), and our 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 us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets and sources of our gross income. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains.

As a result of these factors, our loss of our qualification as a REIT also could impair our ability to expand our business and raise capital. Also, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distributes less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. To qualify as a REIT and avoid the payment of income and excise taxes, we 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. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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 2012). 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 our 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 our properties.

Possible legislative or other actions affecting REITs could adversely affect us and our 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 us or our stockholders. We cannot predict whether, when, in what forms, or with what effective dates, the tax laws applicable to we or our stockholders will be changed.

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

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

We will pay some taxes.

Even if we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state and local taxes on our income and property. In addition, our TRSs are fully taxable corporations that will be subject to taxes on their income and the TRSs may be limited in their ability to deduct interest payments made to us or the Operating Partnership. We also will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our TRSs and us are not comparable to similar arrangements among unrelated parties or if we receive payments for inventory or property held for sale to customers in the ordinary course of business. To the extent that we or our TRSs are required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to our stockholders. As a result, our business, financial condition, results of operations, ability to make distributions to our stockholders and the trading price of our stock may be materially and adversely affected.

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

Our charter provides that the Board of Directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and we would no longer be required to distribute most of our taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

Our ability to invest in TRSs is limited by our qualification as a REIT, and accordingly may limit our ability to grow the business of the Design-Build and Development segment.

In order for us to qualify as a REIT, no more than 25% of the value of our assets may consist of securities of one or more TRSs. We have jointly elected with TRS Holdings and its subsidiaries to treat such entities as TRSs. Accordingly, our ability to grow and expand the business and of TRS Holdings and its subsidiaries, absent a corresponding increase in the value of our real estate assets, will be limited by our need to continue to meet the applicable TRS limitation which could adversely affect returns to its stockholders.

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If the aggregate value of the securities we own in its TRSs were determined to be in excess of 25% of the value of its total assets, we could fail to qualify as a REIT or be subject to a penalty tax and forced to dispose of TRS securities.

For us to continue to qualify as a REIT, the aggregate value of all securities that we hold in our TRSs may not exceed 25% of the value of its total assets. The value of our TRS securities and our real estate assets is based on determinations of fair market value which are not subject to precise determination. We will not lose our qualification as a REIT if we 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, or by way of a limited partner of the operating partnership exercising an exchange right, or we raising additional capital and contributing such capital to its operating partnership). If we were to fail to satisfy the TRS limitation at the end of a particular quarter and we were considered to have acquired TRS securities during such quarter, we would fail to qualify as a REIT unless we cured such failure by disposing of TRS securities or otherwise coming into compliance with the TRS limitation within 30 days after the close of such quarter. Based on such rules and our determination of the fair market value of our assets and the securities of our TRSs, we believe that we have satisfied and will continue to satisfy the TRS limitation. Notwithstanding the foregoing, as the fair market value of our TRS securities and real estate assets cannot be determined with absolute certainty, and we do not control when a limited partner of our operating partnership will exercise their redemption right, no assurance can be given that the IRS will not successfully challenge the valuations of our assets or that we have met and will continue to meet the TRS limitation. In addition, if the value of our real estate assets were to decrease, our ability to own TRS securities or other assets not qualifying as real estate assets will be limited and we could be forced to dispose of our TRS securities or such other assets in order to comply with REIT requirements.

If the IRS were to successfully challenge our valuation of certain of its subsidiaries, we may fail to qualify as a REIT.

While we believe we have properly valued the securities we holds in its TRSs, there is no guarantee that the IRS would agree with such valuation or that a court would not agree with such determination by the IRS. In the event we have improperly valued the securities we holds in its TRSs, we may fail to satisfy the 25% (20% with respect to its taxable year ended on or before December 31, 2008 and prior taxable years) asset test which may result in our failure to qualify as a REIT.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

The following table contains information about our stabilized consolidated wholly-owned and joint venture properties as of December 31, 2011:

	September 30, Location	September 30, Ownership	September 30, Net Rentable Square Feet	September 30, Occupancy Rate	September 30, Annualized Rent [(1)]	September 30, Annualized Rent Per Leased Square Foot (1)
California						
Verdugo Hills Professional Bldg I	Glendale	100.0%	64,056	92.0%	$ 1,947,109	$ 33.04
Verdugo Hills Professional Bldg II	Glendale	100.0%	42,906	99.5%	1,463,303	34.27
			106,962	95.0%	3,410,412	33.56
Florida						
Woodlands Center for Specialized Medicine	Pensacola	40.0%	75,985	100.0%	2,614,797	34.41
Georgia						
Augusta POB I	Augusta	100.0%	99,494	95.1%	1,387,647	14.66
Augusta POB II	Augusta	100.0%	125,634	87.6%	2,311,621	21.01
Augusta POB III	Augusta	100.0%	47,034	100.0%	924,491	19.66
Augusta POB IV	Augusta	100.0%	55,134	51.7%	489,873	17.19
Summit Professional Plaza I	Brunswick	100.0%	33,039	93.5%	861,470	27.89
Summit Professional Plaza II	Brunswick	100.0%	64,233	96.7%	1,779,432	28.63
			424,568	87.9%	7,754,534	20.78
Indiana						
Methodist Professional Center I [(2)]	Indianapolis	100.0%	150,243	100.0%	3,698,468	24.62
Methodist Professional Center II (sub-lease)	Indianapolis	100.0%	24,080	100.0%	679,892	28.23
			174,323	100.0%	4,378,360	25.12
Kentucky						
OLBH Same Day Surgery Center and MOB	Ashland	100.0%	46,907	100.0%	1,035,238	22.07
OLBH Parking Garage					904,717	
			46,907	100.0%	1,939,955	22.07[(3)]
Louisiana						
East Jefferson MOB	Metairie	100.0%	119,921	96.8%	2,489,905	21.44
East Jefferson Medical Plaza	Metairie	100.0%	123,184	100.0%	2,894,023	23.49
East Jefferson MRI	Metairie	100.0%	10,809	100.0%	1,005,991	93.07
			253,914	98.5%	6,389,919	25.55
Minnesota						
Health Partners Medical & Dental Clinics	Sartell	100.0%	60,108	94.9%	2,232,530	39.12
Mississippi						

University Physicians Grants Ferry	Flowood	100.0%	50,575	100.0%	1,717,816	33.97
New York						
Central NY Medical Center [4]	Syracuse	100.0%	111,634	97.8%	2,871,587	26.31
North Carolina						
Alamance Regional Mebane Outpatient Center	Mebane	35.1%	68,206	77.6%	1,967,685	37.19
Barclay Downs	Charlotte	100.0%	38,395	100.0%	713,303	18.58
Birkdale Bldgs C, D, E and Birkdale Wellness	Huntersville	100.0%	64,669	93.0%	1,372,868	22.83
Birkdale II	Huntersville	100.0%	8,269	100.0%	193,272	23.37
Copperfield Medical Mall	Concord	100.0%	26,000	100.0%	634,655	24.41
East Rocky Mount Kidney Center	Rocky Mount	100.0%	8,043	100.0%	163,650	20.35
English Road Medical Center	Rocky Mount	34.5%	35,393	95.7%	960,002	28.36
Gaston Professional & Ambulatory Surgery Centers	Gastonia	100.0%	114,956	100.0%	2,819,916	24.53
Gaston Parking					606,141	
Gateway Medical Office Building	Concord	100.0%	61,789	69.1%	1,123,454	26.30
Harrisburg Family Physicians	Harrisburg	100.0%	10,802	100.0%	294,354	27.25
Harrisburg Medical Mall	Harrisburg	100.0%	18,360	100.0%	514,742	28.04
Lincoln/Lakemont Family Practice	Lincolnton	100.0%	16,500	100.0%	405,458	24.57
Mallard Crossing Medical Park	Charlotte	100.0%	52,540	69.0%	871,511	24.03
Medical Arts Building	Concord	100.0%	84,972	98.2%	1,966,304	23.57
Midland Medical Park	Midland	100.0%	14,610	100.0%	449,849	30.79
Mulberry Medical Park	Lenoir	100.0%	24,992	100.0%	511,135	20.45
Northcross Family Physicians	Charlotte	100.0%	8,018	100.0%	239,186	29.83
Randolph Medical Park	Charlotte	100.0%	84,131	76.4%	1,355,528	21.08

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	September 30, Location	September 30, Ownership	September 30, Net Rentable Square Feet	September 30, Occupancy Rate	September 30, Annualized Rent [(1)]	September 30, Annualized Rent Per Leased Square Foot (1)
North Carolina (continued)						
Rocky Mount Kidney Center	Rocky Mount	100.0%	10,105	100.0%	205,606	20.35
Rocky Mount Medical Park	Rocky Mount	100.0%	96,993	100.0%	2,082,396	21.47
Rowan Outpatient Surgery Center	Salisbury	100.0%	19,464	100.0%	440,139	22.61
Weddington Internal & Pediatric Medicine	Concord	100.0%	7,750	100.0%	204,204	26.35
			874,957	91.1%	20,095,358	24.46[(3)]
Pennsylvania						
Doylestown Health & Wellness Center	Doylestown	99.0%	99,132	97.0%	3,066,451	31.90
Lancaster Rehabilitation Hospital	Lancaster	100.0%	57,508	100.0%	1,511,065	26.28
Lancaster ASC MOB	Lancaster	80.9%	64,214	100.0%	2,220,166	34.57
			220,854	98.6%	6,797,682	31.20
South Carolina						
200 Andrews	Greenville	100.0%	25,902	100.0%	635,812	24.55
Beaufort Medical Plaza	Beaufort	100.0%	59,340	100.0%	1,387,344	23.38
Carolina Forest Medical Plaza	Myrtle Beach	100.0%	38,902	43.5%	547,848	32.40
Mary Black Westside Medical Office Bldg	Spartanburg	100.0%	37,455	100.0%	732,042	19.54
Medical Arts Center of Orangeburg	Orangeburg	100.0%	49,324	78.0%	674,507	17.54
Mount Pleasant Medical Office Long Point	Mt. Pleasant	100.0%	38,735	65.7%	682,462	26.82
One Medical Park	Columbia	100.0%	69,840	79.3%	1,342,602	24.23
Palmetto Health Parkridge	Columbia	100.0%	89,451	94.6%	2,243,493	26.51
Providence MOB I	Columbia	100.0%	48,500	73.8%	715,518	19.99
Providence MOB II	Columbia	100.0%	23,280	89.6%	431,925	20.71
Providence MOB III	Columbia	100.0%	54,417	78.8%	750,086	17.49
River Hills Medical Plaza	Little River	100.0%	27,566	70.9%	639,181	32.70
Roper Medical Office Building	Charleston	100.0%	122,784	87.1%	2,320,567	21.70
St. Francis CMOB	Greenville	100.0%	45,140	96.6%	1,189,373	27.27
St. Francis Medical Plaza (Charleston)	Charleston	100.0%	28,734	100.0%	824,788	28.70
St. Francis Medical Plaza (Greenville)	Greenville	100.0%	62,724	99.1%	1,136,605	18.29
St. Francis Outpatient Surgery Center	Greenville	100.0%	72,491	100.0%	2,225,464	30.70
St. Francis Professional Medical Center	Greenville	100.0%	49,767	100.0%	1,169,200	23.49
St. Francis Women's	Greenville	100.0%	57,590	90.2%	1,066,809	20.54
Three Medical Park	Columbia	100.0%	88,755	86.2%	1,805,579	23.60
			1,090,697	87.5%	22,521,205	23.59
Tennessee						
Health Park Medical Office Building	Chattanooga	100.0%	52,151	100.0%	1,604,890	30.77
Medical Center Physicians Tower	Jackson	50.5%	106,772	100.0%	2,765,248	25.90

Peerless Crossing Medical Center	Cleveland	100.0%	40,506	100.0%	1,033,384	25.51
			199,429	100.0%	5,403,522	27.09
Virginia						
MRMC MOB I	Mechanicsville	100.0%	57,246	93.2%	1,471,235	27.58
St. Mary s MOB North (Floors 6 & 7)	Richmond	100.0%	30,617	100.0%	765,719	25.01
			87,863	95.6%	2,236,954	26.64
Washington						
Bonney Lake Medical Office Building	Bonney Lake	61.7%	55,991	97.1%	2,382,533	43.81
Total			3,834,767	92.5%	$ 92,747,164	$ 25.73[3]

(1) Annualized rent is based on contractual lease revenue as of December 31, 2011.

(2) Parking revenue from an adjacent parking deck is approximately $94,000 per month, or $1,128,000 annualized.

(3) Excludes annualized rent of adjacent parking decks to OLBH Same Day Surgery Center and MOB and Gaston Professional Center from calculation.

(4) Parking revenue from an adjacent parking deck is approximately $93,000 per month, or $1,116,000 annualized.

A property is considered stabilized upon the earlier of (1) achieving intended occupancy and substantial completion of tenant improvements, or (2) completion of the fill-up period specified within the property s underwriting. Fill-up properties are newly available properties that have not achieved underwritten stabilized occupancy. At December 31, 2011, we had the following properties in fill-up:

Property	September 30, Location	September 30, Type	September 30, Completion/ Acquired Date	September 30, Net Rentable Square Feet	September 30, Percentage Leased	September 30, Acquisition / Construction Cost	September 30, Fill-up Underwriting Date
St. Elizabeth Florence Medical Office Building	Florence, KY	Acquisition	1Q 2011	53,833	76%	6,150	1Q 2013
St. Elizabeth Covington Medical Center	Covington, KY	Acquisition	2Q 2011	59,794	58%	12,300	2Q 2013
Good Sam Medical Office Building	Puyallup, WA	Development	4Q 2011	80,651	68%	27,116	4Q 2013
				194,278		$ 45,566	

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Future lease expirations by tenants by year under non-cancelable leases as of December 31, 2011, were as follows:

	September 30, Number of Leases Expiring	September 30, Net Rentable Square Feet	September 30, Percentage of Net Rentable Square Feet	September 30, Annualized Rent	September 30, Percentage of Property Annualized Rent	September 30, Annualized Rent Per Leased Square Foot
Available		288,547	7.5%	$		$
2012	168	592,819	15.5%	15,076,988	16.3%	24.41(1)
2013	94	362,999	9.5%	8,602,560	9.3%	23.70
2014	86	375,042	9.8%	9,516,790	10.3%	25.38
2015	77	296,958	7.7%	8,127,203	8.8%	24.32(1)
2016	93	395,525	10.3%	8,867,516	9.6%	22.42
2017	57	349,651	9.1%	9,259,630	10.0%	26.48
2018	28	177,189	4.6%	4,356,069	4.7%	24.58
2019	21	160,986	4.2%	3,621,947	3.9%	22.50
2020	17	115,296	3.0%	2,727,447	2.9%	23.66
2021	22	297,107	7.7%	9,030,228	9.7%	30.39
Thereafter	16	422,648	11.0%	13,560,786	14.6%	32.09
Total	679	3,834,767	100.0%	$ 92,747,164	100.0%	$ 25.73(1)

(1) Excludes annualized rent of adjacent parking decks to OLBH Same Day Surgery Center and MOB and Gaston Professional Center from calculation.

No tenant occupied 10% or more of our net rentable square feet at our properties.

Item 3. ***Legal Proceedings***

On December 29, 2011, a complaint was filed in the Superior Court for State of North Carolina, Mecklenburg County, under the caption, *Sesholtz v. Braun, et al.*, Case No. 11 CVS 23162, against us, our directors and Ventas on behalf of a putative class of similarly situated investors, alleging that the our board of directors breached its fiduciary duties regarding the Company Merger and that Ventas aided and abetted the alleged breach of fiduciary duties. Beginning on January 4, 2012, six other putative class action suits were filed in the Maryland Circuit Court for Baltimore City against the same defendants and alleging similar breach of fiduciary duty and aiding and abetting claims, although certain complaints also named our Operating Partnership, MergerSub and OP MergerSub as defendants. On January 27, 2012, we also received a letter from an entity purporting to be a stockholder demanding that the board terminate the Company Merger and the sale of the Erdman business and that the board conduct an investigation into the Company Merger and the sale of the Erdman business. The letter also made a request for access to certain books and records of the company related to the Company Merger and the sale of the Erdman business. The cases pending in Maryland were consolidated by the Court on January 31, 2012 under the caption, *In re Cogdell Spencer Inc. Shareholder Litigation*, Case No. 24-C-12-000053. On February 3, 2012, the plaintiff in the North Carolina action filed an amended complaint, and on February 9, 2012, the plaintiffs in the Maryland action filed an amended complaint, including the class and derivative actions. All of the pending cases ask that the Company Merger be enjoined and seek other unspecified monetary relief. On February 21, 2012, defendants moved to dismiss the amended complaint.

On February 29, 2012, we entered into a memorandum of understanding with the plaintiffs in the Maryland and North Carolina cases regarding the settlement of the pending claims. Pursuant to the terms of the proposed settlement, we agreed to make certain supplemental disclosures related to the proposed Company Merger. The memorandum of understanding contemplates that the parties will enter into a settlement agreement after a period of confirmatory discovery, which will be subject to customary conditions, including court approval following notice to our stockholders. In the event the parties enter into a settlement agreement, a hearing will be scheduled in which the Maryland Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the Court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the proposed Merger, the Merger Agreement, and any disclosure made in connection therewith, among other claims, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement.

In addition, in connection with the settlement, the parties contemplate that plaintiffs counsel will file a petition in the Maryland Court for an award of attorneys fees and expenses to be paid by or on behalf of Defendants, which Defendants may oppose. Defendants will pay or cause to be paid any attorneys fees and expenses awarded by the Maryland Court. There can be no assurance that the parties will ultimately enter into a settlement agreement or that the Maryland Court will approve the settlement even if the parties were to enter into a settlement agreement. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

One of the conditions to the closing of the Mergers is that no decree, ruling, judgment, decision, order or injunction shall have been entered by any court of competent jurisdiction that has the effect of prohibiting or restraining the completion of the Mergers. If for any reason the cases are not settled and if any of the plaintiffs are successful in obtaining an injunction prohibiting the defendants from completing the Mergers, then such injunction may prevent the Mergers from becoming effective or from becoming effective within the expected timeframe. [In addition, if any suit, action or proceeding before any court or other governmental entity shall have been instituted or shall be pending, with respect to certain matters disclosed in the merger agreement disclosure schedule, where an unfavorable outcome in such suit, action or proceeding would, in the sole and absolute discretion of Ventas, adversely affect the anticipated business or economic benefits to Ventas and its affiliates of the transactions contemplated by the merger agreement, the Mergers will not be completed. If completion of the Mergers is prevented or delayed, it could result in substantial costs to us. In addition, we could incur costs associated with the indemnification of our directors and officers.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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PART II

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

Market Information

Our common stock trades on the NYSE under the symbol CSA. The following table sets forth, for the period indicated, the high and low sales price for our common stock as reported by the NYSE and the per share dividends declared:

Period	September 30, High		September 30, Low		September 30, Dividends Declared	
2010						
First Quarter	$	7.82	$	5.62	$	0.10
Second Quarter	$	8.52	$	2.93	$	0.10
Third Quarter	$	7.64	$	6.00	$	0.10
Fourth Quarter	$	7.02	$	5.67	$	0.10
2011						
First Quarter	$	6.71	$	5.57	$	0.10
Second Quarter	$	6.27	$	5.71	$	0.10
Third Quarter	$	6.31	$	3.58	$	0.10
Fourth Quarter	$	4.31	$	3.18	$	0.10

On March 8, 2012, the closing price of our common stock as reported by the NYSE was $4.25. At March 8, 2012, we had 129 holders of record of our 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, we are required to distribute at least 90% of our REIT taxable income (computed without regard to the dividends paid deduction or net capital gains) to shareholders annually to maintain our REIT qualification for U.S. federal income tax purposes. Our Credit Facility includes limitations on our ability to make distributions to our stockholders, subject to complying with our REIT requirements.

During 2011, we paid four quarterly dividends of $0.10 per share, totaling $0.40 per share for 2011. We funded the dividend payments for 2011 through a combination of funds from operations and borrowings under the Credit Facility. We use borrowings available under the Credit Facility to fund dividend payments when our cash flows from operations is insufficient to meet the dividend payments. The dividends of $0.40 per share are classified for income tax purposes as 45.0% taxable ordinary dividend, 5.0% capital gain (2.5% long term capital gain and 2.5% unrecaptured Section 1250 gain) and 50.0% return of capital.

We have reserved 2.5 million shares of common stock for issuance under our 2005 and 2010 long-term incentive plans of which 1.0 million remained available for issuance as of December 31, 2011.

As of December 31, 2011, there were 58.6 million OP units outstanding, of which 51.2 million, or 87.4%, were owned by us and 7.4 million, or 12.6%, were owned by other partners (including certain directors and members of executive management).

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Stockholder Return Performance

The following graph compares the cumulative total return on our 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 January 1, 2007 through December 31, 2011. The stock price performance graph assumes that an investor invested $100 in each of us 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 our shares of common stock.

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
			Period Ending			
Index	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**
Cogdell Spencer Inc.	100.00	79.93	49.88	34.41	37.40	29.81
NAREIT Equity	100.00	84.31	52.50	67.20	85.98	93.11
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76

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), 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

As disclosed in our Current Report on Form 8-K, filed with the SEC on September 24, 2010, in September 2010, in connection with the employment of Raymond W. Braun as our Chief Executive Officer and President, we sold 74,516 shares of common stock to Mr. Braun at a price per share equal to $6.71.

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On October 20, 2009, the final escrow release related to our acquisition of MEA Holdings, Inc. (MEA) in 2008 (the MEA transaction) occurred and in connection therewith, the Operating Partnership issued an aggregate of 331,812 of OP units, having an aggregate value of $1.6 million, at the time of issuance, to the MEA sellers. These OP units were issued in exchange for ownership interests in MEA 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 our option, exchangeable into shares of our common stock on a one-for-one basis. No underwriters were used in connection with this issuance of these OP units.

Issuer Purchases of Equity Securities

We did not repurchase any shares of common stock during the quarter ended December 31, 2011.

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Item 6. ***Selected Financial Data***

The following table sets forth our selected consolidated financial and operating data on an historical basis. 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.

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
		For the year ended December 31,			
		(In thousand, except per share amounts)			
Statements of Operations Data:					
Rental revenue	$ 96,253	$ 87,803	$ 79,486	$ 77,421	$ 62,611
Design-Build contract revenue and other sales	79,019	91,256	143,416	253,596	
Total revenues	178,537	182,417	229,601	335,362	66,403
Property operating and management expenses	38,861	33,664	31,810	31,065	25,405
Costs related to design-build contract revenue and other sales	69,704	72,001	113,961	214,019	
Selling, general, and administrative expenses	24,841	30,411	32,285	30,215	7,365
Impairment charges	26,885	127,041	120,920		
Income (loss) from continuing operations before other income (expense) and income tax benefit (expense)	(15,046)	(113,541)	(103,877)	15,184	6,021
Interest expense	(21,287)	(21,994)	(21,711)	(25,017)	(15,818)
Loss from continuing operations	(35,099)	(118,886)	(100,435)	(7,645)	(8,821)
Net loss	(35,099)	(118,616)	(101,962)	(7,857)	(8,994)
Net loss attributable to Cogdell Spencer Inc. common shareholders	(36,961)	(104,089)	(69,728)	(5,773)	(6,341)
Per Share basic and diluted:					
Declared dividend	$ 0.40	$ 0.40	$ 0.525	$ 1.275	$ 1.40
Loss from continuing operations attributable to Cogdell Spencer Inc. common shareholders	$ (0.72)	$ (2.20)	$ (2.10)	$ (0.36)	$ (0.56)
Income (loss) from discontinued operations attributable to Cogdell Spencer Inc. common shareholders	$	$	$ (0.04)	$ (0.01)	$ (0.01)
Net loss per share attributable to Cogdell Spencer Inc. common shareholders	$ (0.72)	$ (2.20)	$ (2.14)	$ (0.37)	$ (0.57)
Weighted average shares basic and diluted	51,068	47,456	32,655	15,770	11,056
Weighted average shares and OP units basic and diluted	58,496	55,206	40,616	24,098	15,637
Selected Balance Sheet Data (as of the end of the period):					
Assets:					
Real estate properties, net	$ 606,561	$ 537,393	$ 511,215	$ 474,260	$ 451,284
Other assets, net	85,543	95,547	241,448	425,830	54,953
Total assets	$ 692,104	$ 632,940	$ 752,663	$ 900,090	$ 506,237
Liabilities and equity:					
Mortgages, credit facility, and term debt	$ 453,634	$ 362,303	$ 410,892	$ 462,948	$ 314,314
Other liabilities, net	76,210	53,117	93,991	154,148	29,667
Equity	162,260	217,520	247,780	282,994	162,256

Total liabilities and equity	$	692,104	$	632,940	$	752,663	$	900,090	$	506,237
Cash Flow Data:										
Net cash provided by operating activities	$	31,897	$	7,496	$	45,443	$	24,740	$	23,796
Net cash used in investing activities	$	(96,780)	$	(44,214)	$	(54,213)	$	(194,277)	$	(117,298)
Net cash provided by financing activities	$	69,409	$	23,007	$	16	$	200,650	$	96,055
Other Data:										
Funds from operations (1)	$	(12,273)	$	(91,939)	$	(73,897)	$	21,380	$	18,259
Funds from operations modified (1)	$	(11,348)	$	(90,447)	$	(71,132)	$	29,363	$	18,362
FFOM, net of non-recurring items	$	16,498	$	28,818	$	31,229	$	30,675	$	18,362

(1) FFO is a supplemental non-GAAP financial measure used by the real estate industry to measure the operating performance of real estate companies. FFOM adds back to traditionally defined FFO non-cash amortization of non-real estate related intangible assets associated with purchase accounting. We present FFO and FFOM because we consider them important supplemental measures of operational performance. We believe FFO is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. We believe that FFOM allows securities analysts, investors and other interested parties to evaluate current period results to results prior to the acquisition of MEA Holdings, Inc. FFO and FFOM are intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate assets diminishes ratably over time, and impairment of depreciable real estate assets. Historically, however, real estate values have risen or fallen with market conditions. Because FFO and FFOM excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, they provide performance measures that, when compared year over year, reflect 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. We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in

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November 1999 and April 2002), which may differ from the methodology for calculating FFO and FFOM utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. We adjust the NAREIT definition to add back noncontrolling interests in consolidated real estate partnerships before real estate related depreciation and amortization, acquisition-related expenses, and deduct dividends on preferred stock. 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 our performance, nor are they indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.

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 (in thousands):

	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2008	September 30, 2007
Funds from operations:					
Net loss	$ (35,099)	$ (118,616)	$ (101,962)	$ (7,857)	$ (8,994)
Real estate related depreciation and amortization [(1)]	31,095	29,177	29,114	30,583	27,453
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,544)	(2,031)	(1,049)	(1,346)	(200)
Acquisition-related expenses	523				
Gain on sale of real estate properties		(264)			
Divdends on preferred stock	(6,248)	(208)			
Funds from operations	(12,273)	(91,942)	(73,897)	21,380	18,259
Amortization of intangibles related to purchase accounting, net of income tax benefit	925	1,495	2,765	7,983	103
Funds from operations modified	$ (11,348)	$ (90,447)	$ (71,132)	$ 29,363	$ 18,362
Other excluded items:					
Long-lived and intangible asset impairment charges, net of tax benefit	$ 26,885	$ 104,674	$ 101,746	$	$
Litigation loss provision	1,461				
Litigation gain settlement	(500)				
Tax valuation allowance		10,553			
Mr. Spencer s retirement compensation expense, net of tax benefit		2,545			
Mr. Cogdell s employment non-renewal compensation expense		1,493			
Gain on settlement from MEA Holdings, Inc. transaction			(4,905)		
Impairment of real estate property held for sale			1,359		
Strategic planning professional fees			2,641		
Debt extinguishment and interest rate derivative expense, net of tax benefit			1,520		
Restructuring and severance charges, net of tax benefit				1,312	
Impact of other excluded items	$ 27,846	$ 119,265	$ 102,361	$ 1,312	$
FFOM, excluding other excluded items	$ 16,498	$ 28,818	$ 31,229	$ 30,675	$ 18,362

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

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the Cogdell Spencer Inc. Consolidated Financial Statements and Notes thereto appearing elsewhere in this Annual Report on Form 10-K. We make 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

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

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

In 2011, we acquired three buildings totaling approximately 213,000 net rentable square feet for approximately $41.0 million. These acquisitions resulted in two new hospital relationships. St. Elizabeth Florence Medical Office Building, located in Florence, Kentucky, and St. Elizabeth Covington Medical Center, located in Covington, Kentucky, are located on campus with the St. Elizabeth Healthcare hospital system. Doylestown Health & Wellness Center, located in Doylestown, Pennsylvania, is located on campus with Doylestown Hospital.

In 2011, we completed construction on two development projects for which we provided both development and design-build (architectural, engineering, and construction) services. Bonney Lake Medical Office Building, located in Bonney Lake, WA, is a three story medical office building totaling 55,991 rentable square feet and is 97.1% leased. Good Sam Medical Office Building, located in Puyallup, Washington, is a four story medical office building totaling 80,651 rentable square feet and is 67.7% leased. At December 31, 2011, we have one investment project under construction in Duluth, Minnesota, totaling approximately 176,000 net rentable square feet with a total estimated investment of approximately $27.8 million. This project is scheduled to be completed before the end of 2012.

In 2010, we completed construction on three wholly-owned medical office buildings located in Tennessee, Minnesota, and Mississippi for a combined total of $50.7 million and approximately 217,000 net rentable square feet. For the Minnesota and Mississippi projects, we provided both development and design-build (architectural, engineering, and construction) services. We also acquired an outpatient surgery center in South Carolina for $16.6 million as a result of a client relationship. This 72,491 net rentable square foot facility is located on campus and is 100% leased by the hospital.

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As of December 31, 2011, we owned and/or managed 118 medical office buildings and healthcare related facilities, totaling approximately 6.2 million net rentable square feet. Our portfolio consists of:

	September 30, Number of Properties	September 30, Net Rentable Square Feet (in millions)	September 30, Percentage Leased
Stabilized properties:			
Wholly-owned	61	3.33	
Consolidated joint ventures	7	0.51	
Total stabilized properties	68	3.84	92.5%
Fill-up properties[1]:	3	0.19	67.0%
Total consolidated properties	71	4.03	
Unconsolidated joint venture properties	3	0.21	
Properties managed for third parties	44	1.99	
Total portfolio	118	6.23	

(1) Fill-up properties are newly available properties that have not achieved underwritten stabilized occupancy.

At December 31, 2011, 73.8% of our wholly-owned and consolidated properties were located on hospital campuses and an additional 11.5% were located off-campus, but were hospital anchored. We believe that our on-campus and hospital anchored assets occupy a premier franchise location in relation to local hospitals, providing our properties with a distinct competitive advantage over alternative medical office space in an area. As of December 31, 2011, our 68 stabilized properties had a weighted average remaining lease term of approximately 5.8 years.

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

We expect that rental revenue will remain stable due to multi-year, non-cancellable leases with annual rental increases based on the Consumer Price Index (CPI). We have been able to maintain a high occupancy rate for our stabilized, consolidated wholly-owned and joint venture properties due to our focus on customer relationships. For the year ended December 31, 2011, we renewed 88.5% of our scheduled lease expirations. Generally, our property operating revenues and expenses have remained consistent over time, except for growth due to property developments and property acquisitions. As of December 31, 2011, leases representing 15.5% of our net rentable square feet will expire in 2012, 9.5% in 2013 and 9.8% in 2014. These expirations would account for 16.3%, 9.3% and 10.3% of our annualized rent, respectively.

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

In March 2011, we amended and restated our secured revolving credit facility. See Note 10 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

In August 2011, we closed on an $80.8 million Term Loan Facility and used the proceeds to refinance $58.6 million of certain mortgages that mature in 2011 and 2012 and to pay down $22.2 million of our $200 million secured Credit Facility. See Note 10 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

We review the value of real property, goodwill, and intangible assets on an annual basis and when circumstances indicate a potential impairment may exist. For the year ended December 31, 2011, we recorded an impairment charge of $26.9 million related to the proposed sale of the Design-Build and Development segment. This charge reduced the carrying value of goodwill, fixed assets, and customer relationships by $22.9 million, $3.6 million, and $0.4 million, respectively. These are non-cash charges. See Note 9 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

In January 2012, Mr. David J. Lubar resigned from our Company s Board of Directors.

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Proposed Merger with Ventas; Sale of Erdman Business

Merger with Ventas

On December 24, 2011, we entered into an Agreement and Plan of Merger (the merger agreement) with our Operating Partnership, Ventas, Inc., a Delaware corporation (Ventas), TH Merger Corp, Inc., a Maryland corporation and Ventas wholly-owned subsidiary (MergerSub), and TH Merger Sub, LLC, a Delaware limited liability company and Ventas wholly owned subsidiary (OP MergerSub , and, together with Ventas and MergerSub, the Purchaser Parties). The merger agreement provides for the merger of us with MergerSub (the Company Merger) and the merger of OP MergerSub with and into the OP (the Partnership Merger and, together with the Company Merger, the Mergers).

At the effective time of the Company Merger, each share of our common stock that remains outstanding immediately prior to the effective time (other than shares of our common stock owned directly or indirectly, by us or any of our subsidiaries, Ventas, or MergerSub or any other direct or indirect subsidiary of Ventas (which shall be cancelled and retired and shall cease to exist and for which no consideration shall be delivered)) will be automatically cancelled and converted into the right to receive $4.25 in cash (the Per Share Consideration), without interest.

At the effective time of the Company Merger, each share of our Series A Preferred Stock that remains outstanding immediately prior to the effective time (other than shares of Series A Preferred Stock owned, directly or indirectly, by us or any of our subsidiaries, Ventas, or MergerSub or any other direct or indirect subsidiary of Ventas (which shall be cancelled and retired and shall cease to exist and for which no consideration shall be delivered)) will be automatically cancelled and converted into the right to receive an amount in cash equal to $25.00, plus all accrued and unpaid dividends thereon through and including the closing date of the Company Merger (the Per Share Preferred Consideration), without interest.

At the effective time of the Partnership Merger, each Operating Partnership unit (OP Unit) issued and outstanding immediately prior to the effective time (other than OP Units owned directly or indirectly, by us or any of our wholly owned subsidiaries) will be automatically cancelled and converted into the right to receive Per Share Consideration.

Completion of the Company Merger was subject to the approval of the affirmative vote of the holders of not less than a majority of the outstanding shares of our common stock, which we received at a special stockholders meeting held on March 9, 2012.

Completion of the merger is also subject to certain other conditions, including completion of the transactions contemplated by the Stock Purchase Agreement, dated December 24, 2011 (the Erdman purchase agreement) by and between Cogdell Spencer TRS Holdings, LLC (TRS Holdings) and Madison DB Acquisition, LLC (Madison DB) pursuant to which Madison DB will acquire all of the shares of our subsidiary, MEA Holdings, Inc. (MEA), which, together with its subsidiaries, engage in design-build and related development business under the Marshall Erdman name (the Erdman business).

The merger agreement contains certain termination rights for us and Ventas. Upon termination of the merger agreement under specified circumstances, the parties may be required to pay the other party a termination fee. If we are required to pay a termination fee as a result of our entering into an alternative acquisition agreement or completing an alternative transaction, the amount of the termination fee is $15 million plus reimbursement to Ventas for all reasonable out-of-pocket fees and expenses incurred by or on behalf of Ventas in an amount equal to $5 million. The merger agreement also provides that Ventas will be required to pay us a termination fee of $15 million plus expense reimbursement equal to $5 million if the merger agreement is terminated under certain circumstances because Ventas fails to complete the Company Merger or otherwise breaches its obligations under the merger agreement. In certain other termination scenarios, we may be obligated to reimburse Ventas for its reasonable out-of-pocket fees and expenses equal to $5 million, but will not be required to pay Ventas the termination fee.

Sale of Erdman Business

As discussed above, on December 24, 2011, TRS Holdings entered into the Erdman purchase agreement with Madison DB pursuant to which Madison DB will acquire the Erdman business. TRS Holdings will, prior to closing, contribute $11,720,000 (subject to certain adjustments) to MEA. TRS Holdings also has extinguished certain intercompany indebtedness of MEA. At closing, Madison DB will pay $1.00 to TRS Holdings and will contribute $11,720,000 (subject to certain adjustments) in working capital to MEA. Consummation of the transactions contemplated by the Erdman purchase agreement is subject to customary closing conditions, including satisfaction of all conditions to closing of the Mergers.

Mr. David Lubar, one of our former directors, is a principal of the investment fund that is providing Madison DB with its required equity funding. Mr. Lubar was excluded from, and did not participate in, deliberations of our Board of Directors regarding the merger agreement or the Erdman purchase agreement.

Our stockholders will not receive any consideration from the sale of MEA pursuant to the Erdman purchase agreement distinct from the consideration received pursuant to the merger agreement.

Assuming all necessary conditions are satisfied, which cannot be guaranteed, the Mergers are expected to close in the second quarter of 2012.

Critical Accounting Estimates

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

The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses in the reporting period. Our actual results may differ from these estimates. We have provided a summary of our significant accounting policies in Note 2 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011. Critical accounting policies are those judged to involve accounting estimates or assumptions that may be material due to the levels of subjectivity and judgment necessary to account for uncertain matters or susceptibility of such matters to change. Other companies in similar businesses may utilize different estimation policies and methodologies, which may impact the comparability of our results of operations and financial condition to those companies.

Acquisition of Real Estate

The price we pay to acquire a property is impacted by many factors, including the condition of the buildings and improvements, the occupancy of the building, the existence of above and below market tenant leases, the creditworthiness of the tenants, favorable or unfavorable financing, above or below market ground leases and numerous other factors. Accordingly, we are required to make subjective assessments to allocate the purchase price paid to acquire investments in real estate among the assets acquired and liabilities assumed based on our estimate of the fair values of such assets and liabilities. This includes determining the value of the buildings and improvements, land, any ground leases, tenant improvements, in-place tenant leases, tenant relationships, the value (or negative value) of above (or below) market leases and any debt assumed from the seller or loans made by the seller to us. Each of these estimates requires significant judgment and some of the estimates involve complex calculations. Our calculation methodology is summarized in Note 2 in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011. These allocation assessments have a direct impact on our results of operations. If we were to allocate more value to land, there would be no depreciation with respect to such amount. Similarly, if we were to allocate more value to the buildings as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the terms of the leases. Additionally, the amortization of value (or negative value) assigned to above (or below) market rate leases is recorded as an adjustment to rental revenue as compared to amortization of the value of in-place leases and tenant relationships, which is included in depreciation and amortization in our consolidated statements of operations.

Useful Lives of Assets

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

Asset Impairment Valuation

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

We review the value of goodwill using an income approach and market approach on an annual basis and when circumstances indicate a potential impairment may exist. Our methodology to review goodwill impairment, which includes a significant amount of judgment and estimates, provides a reasonable basis to determine whether impairment has occurred. However, many of the factors employed in determining whether or not goodwill is impaired are outside of our control and it is likely that assumptions and estimates will change in future periods. These changes can result in future impairments which could be material.

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

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

For the analysis at December 31, 2011, related to the proposed sale of the Design-Build and Development segment, we used the pending sales price as our indicator of the implied fair value of our goodwill and intangible assets.

Revenue Recognition

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

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

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

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

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

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Income Taxes

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

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

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

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

REIT Qualification Requirements

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

Changes in Financial Condition

In January 2011, we issued approximately 0.3 million shares of 8.500% Series A Cumulative Redeemable Perpetual Preferred Stock (Series A preferred shares) in a follow-on offering, resulting in net proceeds of approximately $8.2 million. The initial offering of Series A preferred shares occurred in December 2010. The net proceeds were used to reduce borrowings under the Credit Facility, to fund build to suit development projects, and for working capital and other general corporate purposes.

Total assets increased from $632.9 million to $692.1 million from December 31, 2010 to December 31, 2011, primarily due to acquisitions of medical office buildings and construction of new medical office buildings. This increase is offset by impairment charges at the Design-Build and Development segment. For additional information regarding the impairment, see Note 9 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

Results of Operations

Our income (loss) from operations is generated primarily from operations of our properties and design-build services and to a lesser degree from consulting and property management agreements. The changes in operating results from period to period reflect changes in existing property performance, changes in the number of properties due to development, acquisition, or disposition of properties, and the operating results of the Design-Build and Development segment. For the year ended December 31, 2011, a significant proportion of our loss from operations is due to the $26.9 million non-cash impairment charge discussed previously in the Overview section.

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Business Segments

We have two identified reportable segments: (1) Property Operations and (2) Design-Build and Development. We define business segments by their distinct customer base and service provided. While we operate as a single entity, we produce discrete financial information for each segment, which is reviewed by the chief operating decision maker to make resource allocation decisions and assess performance. Property Operations includes real estate investment and rental activities as well as properly management for third parties. Design-Build and Development includes design-build construction activities as well as development and consulting activities. For additional information, see Note 7 in the accompanying Notes to Consolidated Financial Statements in the Form 10-K.

Property Summary

The following is an activity summary of our property portfolio (excluding unconsolidated real estate partnerships) for the years ended December 31, 2011 and 2010:

	September 30, For the Year Ended 2011	September 30, 2010
Properties at January 1	66	62
Acquisitions	3	1
Developments	2	3
Properties at December 31	71	66

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

A property is considered stabilized upon the earlier of (1) achieving intended occupancy and substantial completion of tenant improvements, or (2) completion of the fill-up period specified within the property s underwriting. Fill-up properties are newly available properties that have not achieved underwritten stabilized occupancy. For portfolio and operational data, a single stabilized date is used. For GAAP reporting purposes, a property is placed into service in stages as construction is completed and the property and tenant space is available for its intended use. At December 31, 2011, we had three properties in fill-up, St. Elizabeth Florence Medical Office Building located in Florence, Kentucky, St. Elizabeth Covington Medical Center, located in Covington, Kentucky, and Good Sam Medical Office Building, located in Puyallup, Washington.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Funds from Operations Modified (FFOM)

For the year ended December 31, 2011, FFOM, excluding our impairment, litigation gains and losses, deferred tax asset valuation allowance, and retirement compensation, decreased $12.3 million, or 42.8% compared to the same period in the prior year. This decrease is due to 1) decrease in Design-Build and Development segment revenue due to fewer active revenue generating third-party design-build construction projects for the periods, 2) decreases in gross margins for the Design-Build and Development segment, and 3) additional preferred stock dividends of $6.0 million, offset by five additional stabilized properties in our portfolio.

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

	September 30, For the Year Ended December 31, 2011	September 30, December 31, 2010
FFOM attributable to:		
Property operations	$ 59,294	$ 56,054
Design-Build and development, excluding impairment charges and litigation gains and losses	(4,597)	3,930
Intersegment eliminations	(1,456)	(2,896)
Unallocated and other, excluding CEO retirement expense	(36,743)	(28,270)
FFOM, excluding impairment, litigation gains and losses, deferred tax asset valuation allowance, and retirement compensation	16,498	28,818
Impact of impairment, litigation gains and losses, deferred tax asset valuation allowance, and retirement compensation:		
Long-lived and intangible asset impairment charges, net of tax benefit	(26,885)	(104,674)
Litigation gain (loss) provision	(1,461)	
Litigation gain settlement	500	
Deferred tax asset valuation allowance		(10,553)
Mr. Spencer s retirement compensation expense, net of tax benefit		(2,545)
Mr. Cogdell s retirement compensation expense		(1,493)
FFOM	$ (11,348)	$ (90,447)

See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K 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 years ended December 31, 2011 and 2010 (in thousands):

	September 30, For the Year Ended December 31, 2011	September 30, December 31, 2010
Net loss	$ (35,099)	$ (118,616)
Add:		
Real estate related depreciation and amortization:		
Wholly-owned and consolidated properties	31,085	29,164
Unconsolidated real estate partnerships	10	13
Acquisition-related expenses	523	
Less:		
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,544)	(2,031)
Gain on sale of real estate property		(264)
Dividends on preferred stock	(6,248)	(208)
Funds from Operations (FFO)	(12,273)	(91,942)
Amortization of intangibles related to purchase accounting, net of income tax benefit	925	1,495
Funds from Operations Modified (FFOM)	$ (11,348)	$ (90,447)

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FFOM attributable to Property Operations, net of intersegment eliminations

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

	September 30, For the Year Ended December 31, 2011	September 30, December 31, 2010
Rental revenue, net of intersegment eliminations of $0 in 2011 and $92 in 2010	$ 96,253	$ 87,803
Property management and other fee revenue	3,143	3,212
Property operating and management expenses	(38,338)	(33,664)
Interest and other income	749	607
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	31	26
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,544)	(2,031)
Income from discontinued operations, before gain on sale		9
FFOM, net of intersegment eliminations	59,294	55,962
Intersegment eliminations		92
FFOM	$ 59,294	$ 56,054

See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for a reconciliation of above segment FFOM to net income (loss).

For the year ended December 31, 2011, FFOM attributable to Property Operations, net of intersegment eliminations, increased $3.3 million, or 6.0%, compared to the same period last year. The increase in rental revenue is primarily due to the addition of five properties, as well as increases in rental rates associated with CPI increases and reimbursable expenses. The increase in property operating and management expenses are primarily due to the addition of the five new properties.

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

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

	September 30, For the Year Ended December 31, 2011	September 30, December 31, 2010
Design-Build contract revenue and other sales, net of intersegment eliminations of $43,061 in 2011 and $22,741 in 2010	$ 79,019	$ 91,256
Development management and other income, net of intersegment eliminations of $1,832 in 2011 and $5,715 in 2010	122	146
Design-Build contract and development management expenses, net of intersegment eliminations of $43,437 in 2011 and $25,560 in 2010	(69,704)	(72,001)
Selling, general, and administrative expenses, net of intersegment eliminations of $0 in 2011 and $92 in 2010	(14,402)	(17,281)
Interest and other income	16	3
Depreciation and amortization	(1,104)	(997)

FFOM, excluding impairment and litigation gains and losses; net of intersegment eliminations		(6,053)		1,126
Intersegment eliminations		1,456		2,804
FFOM, excluding impairment and litigation gains and losses		(4,597)		3,930
Impact of litigation gains and losses and impairment charges:				
Long-lived and intangible asset impairment charges, net of tax benefit		(26,885)		(127,041)
Litigation gain (loss) provision		(1,461)		
Litigation gain settlement		500		
FFOM	$	(32,443)	$	(123,111)

See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for a reconciliation of above segment FFOM to net income (loss).

For the year ended December 31, 2011, FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, excluding impairment and litigation gains and losses, decreased $7.2 million, compared to the same period last year. The decrease is due to fewer active revenue generating third-party design-build construction projects, compared to the same period last year, and lower total gross margin percentage.

Design-Build Revenues decreased $12.2 million, or 13.4%, for the year ended December 31, 2011, compared to the same period last year. Included in 2010 revenue was $9.8 million related to an agreement for design services only. There were no similar design services only agreements in the current period.

Intersegment Design-Build Revenues increased $16.4 million, or 57.8%, for year ended December 31, 2011, compared to the same period last year. The number of projects under construction for our ownership has increased from two in 2010 to three in 2011. Additionally, there was an increased number of tenant improvement projects for operating buildings performed in 2011 compared to 2010.

For the year ended December 31, 2011, gross margin percentage (Design-Build Revenues less design-build contract and development management expenses and as a percent of revenues) decreased from 21.1% to 11.8% from the prior year. The decrease is primarily due to the gross margin on the $9.8 million revenue discussed in the Design-Build Revenues paragraph above having a greater than normal gross margin because it was an analysis and design agreement that utilized our engineering and architectural professionals and no construction sub-contractors.

For the year ended December 31, 2011, selling, general, and administrative expenses attributable to the Design-Build and Development segment decreased $2.9 million, or 16.7%, as compared to the same period last year. This decrease is primarily due to severance charges related to a reduction in force that occurred in June 2010.

For the year ended December 31, 2011, we recorded an impairment charge of $26.9 million related to the proposed sale of the Design-Build and Development segment. See further explanation of this charge below.

For the year ended December 31, 2011, an arbitrator awarded $2.5 million to plaintiffs in a case in which we were named as the defendant. We accrued $1.5 million of this award during 2011 and accrued $1.0 million during 2009. We paid the $2.5 million award in 2011.

For the year ended December 31, 2011, we settled a separate case for $0.5 million in cash in which we were the plaintiff. We recorded a litigation gain of $0.5 million in 2011.

Selling, general, and administrative

For the year ended December 31, 2011, selling, general, and administrative expenses decreased $5.6 million, or 18.3%, as compared to the same period last year. Excluding the changes attributable to the Design-Build and Development segment, which are discussed above, selling, general and administrative expenses decreased $4.1 million. The decrease is primarily due to non-recurring compensation expenses in 2010 associated with the retirement of Mr. Spencer and Mr. Cogdell. During 2010, we incurred a $2.5 million charge, net of tax benefit, related to the retirement of Mr. Spencer, our former Chief Executive Officer, and a $1.5 million charge related to the retirement of Mr. Cogdell, our founder as well as a former member of senior management, in accordance with their employment agreements.

Depreciation and amortization

For the year ended December 31, 2011, depreciation and amortization expenses increased $0.5 million, or 1.4%, as compared to last year. The increase is primarily due to the addition of five new properties, Good Samaritan Medical Office Building which began operations in December 2011, Bonney Lake Medical Office Building which began operations in August 2011, Doylestown Health & Wellness Center which was acquired in June 2011, St Elizabeth Covington which was acquired in June 2011, St Elizabeth Florence MOB which was acquired in January 2011, offset by the timing of a decrease in the amortization of intangible assets due to these assets becoming fully amortized.

Impairment charges

We recorded a goodwill and intangible asset impairment charge of $23.3 million at December 31, 2011, related to the proposed sale of the Design-Build and Development segment. This charge reduced the carrying value of goodwill and customer relationships by $22.9 million and $0.4 million, respectively. These are non-cash charges. See Note 3 to these Consolidated Financial Statements for a discussion of the proposed sale of our company. Additionally, we recorded an impairment charge of $3.6 million at December 31, 2011, related to property, plant, and equipment associated with the Design-Build and Development segment. The total impairment charge for goodwill, customer relationships, and property, plant, and equipment was $26.9 million. For the analysis at December 31, 2011, related to the proposed sale of the Design-Build and Development segment, we used the pending sales price as our indicator of the implied fair value of our goodwill and intangible assets.

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We performed an interim impairment review of goodwill and intangible assets related to the Design-Build and Development business segment as of June 30, 2010, and an annual review as of December 31, 2010. For the year ended December 31, 2010, we recorded an impairment charge to goodwill of $85.8 million ($79.4 million after taxes) and we also recorded impairment charges of $41.2 million ($25.2 million after taxes) related to trade names and trademarks. These are non-cash charges. We reviewed our position in the healthcare construction market place and our business development strategy. Based on our review of industry data, it was noted that our Design-Build and Development segment had lost market share in each of the last two years. As a result, we lowered our expected future Design-Build and Development cash flows, which lowered the valuation of the reporting unit and caused the impairment charges. Due to decreases in market share, changes in our brand name, and decreased emphasis on branding, we had valued our acquired trade names and trademarks at zero as of December 31, 2010. We also evaluated our amortizing intangible assets and concluded no impairment existed for those assets.

Interest expense

For the year ended December 31, 2011, interest expense decreased $0.7 million, or 3.2%, as compared to the same period last year. This decrease is primarily due to the repayment of a $50.0 million term loan in December 2010, offset by interest on notes payable for the properties that became operational or were acquired in 2011 and 2010.

Income tax benefit (expense)

For the year ended December 31, 2011, income tax benefit (expense) decreased $16.4 million as compared to the same period last year. We record income taxes associated with our taxable REIT subsidiaries (TRSs), which include our Design-Build and Development business segment. During 2010, we recorded an income tax benefit related to the Design-Build and Development segment s impairment charges. During 2011, the income tax benefit associated with the net losses incurred by the Design-Build and Development segment was fully offset by a deferred tax asset valuation allowance and there was no similar income tax benefit related to the segment s impairment charges.

Cash Flows

Cash provided by operating activities increased $24.4 million, or 325.5%, for the year ended December 31, 2011, as compared to the same period last year, and is summarized below (in thousands):

	September 30, 2011	**September 30, 2010**
Net loss plus non-cash adjustments	$ 25,596	$ 25,193
Changes in operating assets and liabilities	6,301	(17,697)
Net cash provided by operating activities	$ 31,897	$ 7,496

The net loss plus non-cash adjustments increased $0.4 million, or 1.6%, for the year ended December 31, 2011, as compared to the same period last year. This increase is primarily due to increased net income after non-cash adjustments for the Property Operations segment, offset by decreased net loss after non-cash adjustments for the Design-Build and Development. The changes in operating assets and liabilities increased $24.0 million for the year ended December 31, 2011, as compared to the same period last year. This increase is primarily due to 1) stabilization of active design-build projects which resulted in the stabilization of design-build billings in excess of costs and estimated earnings on uncompleted contracts as compared to the same period last year where there was a significant decrease in billing in excess of costs and estimated earnings; and 2) an increase in tenant funding responsibility for development projects.

Cash used in investing activities increased $52.6 million, or 118.9%, for the year ended December 31, 2011, as compared to the same period last year. The increase resulted from our current year acquisitions, having more development projects under construction in the current period compared to the same period last year, and increased second generation leasing activity.

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

	September 30, 2011	September 30, 2010
Development, redevelopment, and acquisitions	$ 86,097	$ 38,841
Second generation tenant improvements	10,311	2,977
Recurring property capital expenditures	3,364	1,096
Investment in real estate properties	$ 99,772	$ 42,914

Investments in development, redevelopment, and acquisitions increased from 2010 to 2011 due to more development projects under construction and increased second generation leasing activity.

Cash provided by financing activities increased by $46.4 million for the year ended December 31, 2011, as compared to the same period last year. The change is primarily due to net proceeds drawn down from the Credit Facility of $50.0 million and the addition of a term loan of $80.8 million, offset by net mortgage note repayments of $39.4 million, an increase in financing costs of $3.8 million, and dividends to preferred shareholders of $5.9 million for the year ended December 31, 2011, compared to net debt and equity proceeds of $43.8 million for the year ended December 31, 2010.

Year ended December 31, 2010 compared to the year ended December 31, 2009

Funds from Operations Modified (FFOM)

For the year ended December 31, 2010, FFOM, excluding non-recurring events and impairment charges, decreased $1.2 million, or 3.9%, compared to the same period in the prior year. The $1.2 million decrease is due to decreased Design-Build and Development FFOM, offset by increased Property Operations FFOM, decreased corporate general and administrative expenses, and increased income tax benefit applicable to FFOM.

The following is a summary of FFOM for the year ended December 31, 2010 and 2009 (in thousands):

	September 30, 2010	September 30, 2009
FFOM attributable to:		
Property operations, excluding impairment charges	$ 56,054	$ 50,729
Design-Build and development, excluding impairment charges	3,930	19,297
Intersegment eliminations	(2,896)	(7,751)
Unallocated and other, excluding non-recurring events	(28,270)	(31,046)
FFOM, excluding non-recurring events and impairment charges	28,818	31,229
Non-recurring events and impairment charges:		
Goodwill and intangible asset impairment charges, net of tax benefit	(104,674)	(101,746)
Deferred tax asset valuation allowance	(10,553)	
Mr. Spencer s retirement compensation expense, net of tax benefit	(2,545)	
Mr. Cogdell s retirement compensation expense	(1,493)	
Gain on settlement from MEA Holdings, Inc. transaction		4,905
Strategic planning professional fees		(2,641)
Debt extinguishment and interest rate derivative expense, net of income tax benefit		(1,520)
Impairment of real estate property held for sale		(1,359)
FFOM	$ (90,447)	$ (71,132)

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See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K 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 years ended December 31, 2010 and 2009 (in thousands):

	September 30, 2010	September 30, 2009
Net loss	$ (118,616)	$ (101,962)
Add:		
Real estate related depreciation and amortization:		
Wholly-owned and consolidated properties, including amounts in discontinued operations	29,164	29,102
Unconsolidated real estate partnerships	13	12
Less:		
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,031)	(1,049)
Gain on sale of real estate property	(264)	
Dividends on preferred stock	(208)	
Funds from Operations (FFO)	(91,942)	(73,897)
Amortization of intangibles related to purchase accounting, net of income tax benefit	1,495	2,765
Funds from Operations Modified (FFOM)	$ (90,447)	$ (71,132)

FFOM attributable to Property Operations, net of intersegment eliminations

The following is a summary of FFOM attributable to the Property Operations segment, net of intersegment eliminations, for the years ended December 31, 2010 and 2009 (in thousands):

	September 30, 2010	September 30, 2009
Rental revenue, net of intersegment eliminations of $92 in 2010 and 2009	$ 87,803	$ 79,486
Property management and other fee revenue	3,212	3,336
Property operating and management expenses	(33,664)	(31,810)
Interest and other income	607	541
Earnings (loss) from unconsolidated real estate partnerships, before real estate related depreciation and amortization	26	27
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,031)	(1,049)
Income from discontinued operations, before real estate related depreciation and amortization and gain on sale	9	(1,253)
FFOM, net of intersegment eliminations	55,962	49,278
Intersegment eliminations	92	92
FFOM	$ 56,054	$ 49,370

See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for a reconciliation of above segment FFOM to net income (loss).

For the year ended December 31, 2010, FFOM attributable to Property Operations, net of intersegment eliminations, increased $6.7 million, or 13.6%, compared to the same period last year. The increase in rental revenue is primarily due to the addition of four properties, the Woodlands Center for Specialized Medicine property (a consolidated real estate partnership) which began operations in December 2009, Medical Center

Physicians Tower which began operations in February 2010, University Physicians Grants Ferry medical office building which began operations in June 2010, and HealthPartners Medical & Dental Clinics medical office building which began operations in June 2010, as well as increases in rental rates associated with CPI increases and reimbursable expenses. The increase in property operating and management expenses and the increase in noncontrolling interests in real estate partnerships before real estate related depreciation and amortization were primarily due to the addition of the properties previously mentioned.

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

The following is a summary of FFOM attributable to the Design-Build and Development segment, net of intersegment eliminations, for the years ended December 31, 2010 and 2009 (in thousands):

	September 30, 2010	September 30, 2009
Design-Build contract revenue and other sales, net of intersegment eliminations of $22,741 in 2010 and $32,708 in 2009	$ 91,256	$ 143,416
Development management and other income, net of intersegment eliminations of $5,715 in 2010 and $3,387 in 2009	146	3,363
Design-Build contract and development management expenses, net of intersegment eliminations of $25,560 in 2010 and $28,344 in 2009	(72,001)	(113,961)
Selling, general, and administrative expenses, net of intersegment eliminations of $92 in 2010 and 2009	(17,281)	(20,449)
Interest and other income	3	48
Depreciation and amortization	(997)	(779)
FFOM, excluding impairment charge, net of intersegment eliminations	1,126	11,638
Goodwill and intangible asset impairment charges	(127,041)	(120,920)
FFOM, net of intersegment eliminations	(125,915)	(109,282)
Intersegment eliminations	2,804	7,659
FFOM	$ (123,111)	$ (101,623)

See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K for a reconciliation of above segment FFOM to net income (loss).

For the year ended December 31, 2010, FFOM, excluding impairment charges, attributable to the Design-Build and Development segment, net of intersegment eliminations, decreased $10.5 million, or 90.3%, compared to the same period last year. The decrease is due to fewer active revenue generating third-party design-build construction projects and lower gross margin percentages.

Design-Build contract revenue and other sales plus development management and other income, all net of intersegment eliminations (Design-Build Revenues) decreased $55.4 million, or 37.7%, for the year ended December 31, 2010 compared to the same period last year. This decrease is due to a lower volume of activity as the number of active revenue generating design-build construction projects has decreased from 18 at December 31, 2009 to nine at December 31, 2010. The decreased activity is due to the current economic environment, general uncertainty regarding government health care reform implementation and government payor reimbursement rates, clients difficulty in obtaining financing, and our decreased market share.

Gross margin percentage (design-build and development revenues less design-build contract and development management expenses and as a percent of revenues) decreased from 22.4% for the year ended December 31, 2009 to 21.2% for the year ended December 31, 2010. This decrease was primarily due to costs being absorbed by fewer projects due to the lower volume of active projects in 2010 compared to 2009.

Selling, general, and administrative expenses attributable to the Design-Build and Development segment decreased $3.2 million, or 15.5%, for the year ended December 31, 2010 compared to the same period last year. This decrease was primarily due to an allowance for uncollectible accounts that was recorded in the third quarter of 2009 related to a client project that lost financing during construction and no such allowance was recorded for the year ended December 31, 2010.

Selling, general, and administrative

For the year ended December 31, 2010, selling, general, and administrative expenses increased $1.9 million, or 5.8%, as compared to the same period last year. Excluding the changes attributable to the Design-Build and Development segment, which are discussed above, selling, general and administrative expenses increased $1.3 million primarily due to compensation related payments and expenses made to Mr. Cogdell, our founder as well as a member of senior management, and Mr. Spencer, our former Chief Executive Officer, offset by a decrease in professional fees related to an exploration of strategic alternatives.

During 2010, we incurred a $2.5 million charge, net of tax benefit, related to the retirement of Mr. Spencer and a $1.5 million charge related to the retirement of Mr. Cogdell in accordance with their employment agreements.

During 2009, we explored a range of strategic alternatives that included: an assessment of potential change of control transactions; asset dispositions and acquisitions; business and portfolio combinations; debt financings and refinancings. For the year ended December 31, 2009, the selling, general and administrative expense associated with this exercise totaled approximately $2.6 million and included fees for consultants, accountants, attorneys, and other service providers. There were no such expenses in 2010.

Depreciation and amortization

For the year ended December 31, 2010, depreciation and amortization expenses decreased $1.7 million, or 4.8%, as compared to the same period last year. The decrease was primarily due to a decrease in amortization of intangible assets due to lower carrying values resulting from the impairment recorded in the first quarter of 2009 offset by the addition of four properties, the Woodlands Center for Specialized Medicine property (a consolidated real estate partnership) which began operations in December 2009, Medical Center Physicians Tower which began operations in February 2010, University Physicians Grants Ferry medical office building which began operations in June 2010, and HealthPartners Medical & Dental Clinics medical office building which began operations in June 2010.

Impairment charges

We performed an interim impairment review of goodwill and intangible assets related to the Design-Build and Development business segment as of June 30, 2010, and an annual review as of December 31, 2010. For the year ended December 31, 2010, we recorded an impairment charge to goodwill of $85.8 million ($79.4 million after taxes) and we also recorded impairment charges of $41.2 million ($25.2 million after taxes) related to trade names and trademarks. These are non-cash charges. We reviewed our position in the healthcare construction market place and our business development strategy. Based on our review of industry data, it was noted that our Design-Build and Development segment had lost market share in each of the last two years. As a result, we lowered our expected future Design-Build and Development cash flows, which lowered the valuation of the reporting unit and caused the impairment charges. Due to decreases in market share, changes in our brand name, and decreased emphasis on branding, we had valued our acquired trade names and trademarks at zero as of December 31, 2010. We also evaluated our amortizing intangible assets and had concluded no impairment existed for those assets.

An interim review of the Design-Build and Development s intangible assets was also performed on March 31, 2009, due to a decline in our stock price, a decline in the cash flow multiples for comparable public engineering and construction companies, and changes in the cash flow projections for the Design-Build and Development business segment resulting from a decline in backlog and delays and cancellations of client building projects. As a result of the March 31, 2009, review, we recorded, during the three months ended March 31, 2009, an impairment charge to goodwill of $71.8 million. We also recorded impairment charges of $34.7 million ($21.2 million after taxes) related to trade names and trademarks and $14.4 million ($8.8 million after taxes) related to the amortizing intangibles of proposals and customer relationships. These are non-cash charges.

Interest expense

For the year ended December 31, 2010, interest expense increased $0.3 million, or 1.3%, as compared to the same period last year. This increase is primarily due to interest on mortgage notes payable for properties that became operational December 2009, February 2010, and June 2010 offset by lower debt balances as we used a portion of the proceeds from the June 2009, May 2010, and December 2010 equity offerings to repay debt.

Income tax benefit (expense)

For the year ended December 31, 2010, income tax benefit decreased $5.8 million, or 26.1%, as compared to the same period last year. This decrease was primarily due to the $10.5 million deferred tax asset valuation allowance recorded in 2010 compared to no valuation allowance recorded in 2009. This decrease was offset by a pre-tax loss that was greater in 2010 compared to 2009, resulting in an income tax benefit that was $6.7 million greater in 2010 compared to 2009.

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Cash Flows

Cash provided by operating activities decreased $37.9 million, or 83.5%, for the year ended December 31, 2010, as compared to the same period last year, and is summarized below (in thousands):

	September 30, 2010	September 30, 2009
Net loss plus non-cash adjustments	$ 25,193	$ 37,599
Changes in operating assets and liabilities	(17,697)	7,844
Net cash provided by operating activities	$ 7,496	$ 45,443

The net loss plus non-cash adjustments decreased $12.4 million, or 33.0%, for the year ended December 31, 2010, as compared to the same period last year. This decrease is primarily due to decreased net loss after non-cash adjustments for the Design-Build and Development segment offset by increased net income after non-cash adjustments for the Property Operations segment. The changes in operating assets and liabilities decreased $25.5 million for the year ended December 31, 2010, as compared to the same period last year. This decrease is primarily due to a decrease in design-build billings in excess of costs and estimated earnings on uncompleted contracts, which decreases cash provided by operations. Due to the decrease in the number of active design-build projects and the timing of the current projects, there was a significant decrease in billings in excess of costs and estimated earnings on uncompleted projects.

Cash used in investing activities decreased $10.0 million, or 18.4%, for the year ended December 31, 2010, as compared to the same period last year. The decrease resulted from us having fewer development projects under construction in 2010 compared to 2009. The increase in restricted cash is related to funds that we deposited with our construction lender for the Puyallup, Washington project as well as funds deposited in relation to other development projects. We received cash proceeds from the sale of Harbison Medical Office Building in the second quarter of 2010. See Note 7 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

Investment in real estate properties consisted of the following for the years ended December 31, 2010 and 2009 (in thousands):

	September 30, 2010	September 30, 2009
Development, redevelopment, and acquisitions	$ 38,841	$ 49,007
Second generation tenant improvements	2,977	3,932
Recurring property capital expenditures	1,096	1,633
Investment in real estate properties	$ 42,914	$ 54,572

Investments in development, redevelopment, and acquisitions decreased from 2009 to 2010 due to one fewer project under construction.

Cash provided by financing activities increased by $23.0 million for the year ended December 31, 2010, as compared to same period last year. The change is primarily due to an increase of equity net proceeds of $33.7 million offset by a decrease in mortgage and Credit Facility proceeds of $14.0 million.

Construction in Progress

Construction in progress at December 31, 2011, consisted of the following (dollars in thousands):

September 30,	September 30, Estimated Completion	September 30, Net Rentable Square Feet	September 30, Investment	September 30, Estimated Total

Property	Location	Date	(unaudited)		to Date		Investment
St Lukes Medical Office Building	Duluth, MN	3Q 2012	176,000	$	10,043	$	27,800
Land and pre-construction developments					2,214		
			176,000	$	12,257	$	27,800

Liquidity and Capital Resources

In addition to amounts available under the Credit Facility, as of December 31, 2011, we had approximately $16.7 million available in cash and cash equivalents.

On March 1, 2011, we amended and restated our secured revolving credit facility (Credit Facility). This $200.0 million Credit Facility is held with a syndicate of financial institutions. The Credit Facility is available (1) to fund working capital and other general corporate purposes, (2) to finance acquisition and development activity, and (3) to refinance existing and future indebtedness. The Credit Facility permits us to borrow, subject to borrowing base availability, up to $200.0 million of revolving loans, with sub-limits of $25.0 million for swingline loans and $25.0 million for letters of credit. As of December 31, 2011, the

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maximum available borrowings under the Credit Facility was $121.5 million, based on 70% of the value of the aggregate property pledged as collateral. As of December 31, 2011, there was $18.5 million available under the Credit Facility as $95.0 million was outstanding and $8.0 million of availability was restricted related to outstanding letters of credit. We have the ability to increase the availability by pledging additional unencumbered property to the Credit Facility.

The Credit Facility also allows for up to $150.0 million of increased availability (to a total aggregate available amount of $350.0 million), at our request but subject to each lender s option to increase its commitment. The interest rate on loans under the Credit Facility equals, at our election, either (1) LIBOR (0.30% as of December 31, 2011) plus a margin of between 275 to 350 basis points based on our total leverage ratio (3.25% as of December 31, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate (3.25% as of December 31, 2011) plus a margin of between 175 to 250 (2.25% as of December 31, 2011) basis points based on our total leverage ratio.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date of March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00). Additionally, provisions in the Credit Facility indirectly prohibit us from redeeming or otherwise repurchasing any shares of our stock, including our preferred stock.

On August 1, 2011, we entered into Amendment No. 2 to the Credit Facility (Amendment No. 2 to the Credit Facility). Amendment No. 2 to the Credit Facility modified, among other things, the financial covenant to exclude the $80.8 million secured term loan facility (the Term Loan Facility), discussed below, from the calculation of the secured recourse indebtedness ratio and to decrease the maximum secured recourse indebtedness ratio to 15%. Prior to Amendment No. 2 to the Credit Facility, we entered into Amendment No. 1 to the Credit Facility (Amendment No. 1 to the Credit Facility) to make a non-material change to revise a negative covenant that unintentionally restricted our ability to incur liens securing recourse indebtedness for us or our subsidiaries.

Borrowings under the Term Loan Facility bear interest at either (1) LIBOR (0.30% as of December 31, 2011) plus a margin of between 325 to 400 basis points based on our total leverage ratio (3.75% as of December 31, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate (3.25% as of December 31, 2011) plus a margin of between 225 to 300 (2.75% as of December 31, 2011) basis points based on our total leverage ratio.

The Term Loan Facility is secured by a pledge of our ownership interests in certain of our property-owning subsidiaries. We will be required, however, to deliver mortgages on the borrowing base properties if we exceed a specified leverage ratio or fail to meet a specified fixed charge ratio. The Term Loan Facility is guaranteed by us and certain of our subsidiaries.

We are subject to customary covenants substantially similar to those for the Credit Facility including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met by us at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Term Loan Facility and the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2013, and 1.50 to 1.00 thereafter), and minimum consolidated

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tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances occurring after the closing date of the Term Loan Facility). In addition to the covenants above, we are also subject to a debt service coverage ratio (1.30 to 1.00 or greater), which is based on our net operating income attributable to the borrowing base properties.

In December 2010, we repaid $50.0 million outstanding under the 2008 amended senior secured term facility (the 2008 Term Loan) in full and there was no amount outstanding as of December 31, 2010.

The Credit Facility and the Term Loan have the following financial covenants as of December 31, 2011 (dollars in thousands):

Financial Covenant	September 30, Compliance as of December 31, 2011
Maximum total leverage ratio (0.65 to 1.00 through March 31, 2013, and 0.60 to 1.00 thereafter)	0.53 to 1.00
Maximum secured recourse indebtedness ratio (0.15 to 1.00)	0.06 to 1.00
Minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter)	1.44 to 1.00
Minimum consolidated tangible net worth ($237,106 plus 80% of the net proceeds of equity issuance after March 1, 2011)	$ 280,161
Minimum facility interest coverage ratio (1.50 to 1.00)	5.32 to 1.00

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

The financial covenants related to our Credit Facility and our Term Loan Facility require a minimum fixed charge coverage ratio (ratio of adjusted consolidated earnings before interest taxes and depreciation for a trailing 12 month period, as defined in the facilities, to fixed charges, representing interest, scheduled principal payments and preferred dividends) of 1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 beginning April 1, 2012 through the initial maturity of the facilities. As of December 31, 2011, our ratio for this covenant was 1.44 to 1.00. Should our ratio for this covenant fall below 1.35 to 1.00 for the first quarter of 2012 or below 1.50 to 1.00 for quarters subsequent to first quarter 2012, then we will be in default on the facilities agreements and may be required to repay the outstanding balances or pay a default rate interest rate.

As discussed in Note 2 to our consolidated financial statements, in the event that the Company Merger is not completed, we may not remain in compliance with the minimum fixed charge coverage ratio and then we would be in default under the agreements for the Credit Facility and the Term Loan Facility and may be required to repay the outstanding balances. This condition raises substantial doubt about our ability to continue as a going concern, and our independent registered public accounting firm has included an explanatory paragraph in its audit report about our ability to continue as a going concern. As of March 27, 2012, we entered into Amendment and Waiver Agreements with respect to both the Credit Facility and the Term Loan Facility to, among other things, extend the time for delivery to our lenders of our audited financial statements with an unqualified opinion until April 20, 2012. If we do not close the Company Merger and the Loans are not repaid and we are not able to deliver audited financial statements with an unqualified opinion by April 20, 2012, we will be in default under both our Credit Facility and our Term Loan Facility.

Short-Term Liquidity Needs

We believe that we 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. We anticipate using our cash flow from continuing operations, cash and cash equivalents, and Credit Facility availability to fund our business operations, cash dividends and distributions, debt amortization, and recurring capital expenditures. Capital requirements for significant acquisitions and development projects may require funding from borrowings and/or equity offerings. If we are unable to fund future development projects with borrowings and/or equity offerings, then our Design-Build and Development segment could incur substantial losses as its pipeline of potential projects are mostly development projects that require our capital to fund.

As of December 31, 2011, we had $21.5 million of principal and maturity payments related to mortgage notes payable due in 2012. The $21.5 million is comprised of $5.1 million for principal amortization and $16.4 million for maturities. We believe we will be able to refinance or extend the remaining $16.4 million of 2012 balloon maturities as a result of the current loan to value ratios at individual properties and preliminary discussions with lenders.

As of December 31, 2011, we had no outstanding equity commitments to unconsolidated joint ventures formed prior to December 31, 2011.

On December 19, 2011, we announced that our Board of Directors had declared a quarterly dividend of $0.10 per share and operating partnership unit that was paid in cash on January 19, 2012 to holders of record on December 27, 2011.

On February 2, 2011, we announced that our Board of Directors had declared a quarterly dividend of $0.531 per share on our Series A preferred shares for the period from December 1, 2011, to February 29, 2012.

Long-Term Liquidity Needs

Our principal long-term liquidity needs consist primarily of new property development, property acquisitions, and principal payments under various mortgages and other credit facilities and non-recurring capital expenditures. We do not expect that our net cash provided by operations will be sufficient to meet all of these long-term liquidity needs. Instead, we expect to finance new property developments through cash equity capital together with construction loan proceeds, as well as through cash equity investments by our tenants or third parties. We intend to have construction financing agreements in place before construction begins on development projects. We expect to fund property acquisitions through a combination of borrowings under our Credit Facility, traditional secured mortgage financing, and equity offerings. In addition, we may use OP units issued by the Operating Partnership to acquire properties from existing owners seeking a tax deferred transaction.

Generally we continue to expect to meet long-term liquidity requirements through net cash provided by operations and through additional equity and debt financings, including loans from banks, institutional investors or other lenders, bridge loans, letters of credit, and other lending arrangements, most of which will be secured by mortgages. We may also issue unsecured debt in the future. We do not, in general, expect to meet our long-term liquidity needs through dispositions of our properties. In the event that we were to sell any of our properties in the future, depending on which property were to be sold, we may need to structure the sale or disposition as a tax deferred transaction which would require the reinvestment of the proceeds from such transaction in another property or the proceeds that would be available from such sales may be reduced by amounts that we may owe under the tax protection agreements entered into in connection with our formation transactions and certain property acquisitions. In addition, our ability to sell certain of our assets could be adversely affected by the general illiquidity of real estate assets and certain additional factors particular to our portfolio such as the specialized nature of its target property type, property use restrictions and the need to obtain consents or waivers of rights of first refusal or rights of first offers from ground lessors in the case of sales of its properties that are subject to ground leases.

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

Contractual Obligations

The following table summarizes the Company s contractual obligations as of December 31, 2011, 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):

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	September 30, 2012	September 30, 2013 to 2014	September 30, 2015 to 2016	September 30, After 2017	September 30, Total
Obligation:					
Long-term debt principal payments and maturities (1)	$ 21,516	$ 274,391	$ 44,735	$ 112,952	$ 453,594
Standby letters of credit (2)	7,954				7,954
Interest payments (3)	20,581	31,561	14,150	7,250	73,542
Purchase commitments (4)					
Ground and air rights leases (5)	607	1,326	1,328	25,246	28,507
Operating leases (6)	4,712	7,861	6,597	17,217	36,387
Total	$ 55,370	$ 315,139	$ 66,810	$ 162,665	$ 599,984

(1) Includes notes payable under the Company's Credit Facility, excludes unamortized premium

(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 0.295% and Prime Rate of 3.25% which were the rates as of December 31, 2011 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 and air rights 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 Notes 10 and 12 in the accompanying Notes to Consolidated Financial Statements in this Form 10-K.

Warranties

We provide standard industry warranties in our design-build business, which generally are for one year after completion of a project. Buildings are guaranteed against defects in workmanship for one year after completion. The typical warranty requires that we replace or repair the defective item. We record an estimate for future warranty related costs based on actual historical warranty claims. This estimated liability is included in Other liabilities in the consolidated balance sheets. Based on analysis of warranty costs, the warranty provisions are adjusted as necessary. While warranty costs have historically been within calculated expectations, it is possible that future warranty costs could exceed expectations.

The changes in the carrying amounts of the total warranty liabilities for the periods shown are as follows (in thousands):

	September 30, For the Year Ended December 31, 2011	September 30, For the Year Ended December 31, 2010	September 30, For the Year Ended December 31, 2009
Balance at the beginning of period	$ 980	$ 1,500	$ 4,331
Accruals	619	1,187	(218)
Settlements	(579)	(1,707)	(2,613)
Balance at the end of period	$ 1,020	$ 980	$ 1,500

Off-Balance Sheet Arrangements

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

Real Estate Taxes

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

Inflation

Our 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 us for a portion of property operating expenses and real estate taxes. Our 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. We also pay certain payroll and related costs related to the operations of third party properties that we manage. Under terms of the related management agreements, these costs are reimbursed by the third party property owners. We believe that inflationary increases in expenses will be offset, in part, by the contractual rent increases and tenant expense reimbursements described above.

Seasonality

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

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update, codified in Accounting Standards Codification (ASC) 820, Fair Value Measurement, which increases the disclosures around assets and liabilities measured at fair value. Entities will be required to disclose any significant transfers between Levels 1 and 2 of the fair value hierarchy, provide additional quantitative and qualitative information regarding fair value measurements categorized as Level 3 of the fair value hierarchy, and include the hierarchy classification for items whose fair value is not recorded on their consolidated balance sheets but are disclosed in their notes. This will become effective for fiscal years beginning after December 15, 2011. We have not yet adopted this accounting standard update and do not expect it to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued an accounting standard update, codified in ASC 220, Comprehensive Income, which changes the presentation of comprehensive income. Entities will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This will become effective for fiscal years beginning after December 15, 2011. We have not yet adopted this accounting standard update and do not expect it to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued an accounting standards update, codified in ASC 350, Intangibles-Goodwill and Other. While this amendment does not change the calculation of goodwill impairment, it simplifies how companies test goodwill for impairment. Under this amendment, a company would be permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the fair value of a reporting unit is more than the carrying account, it is not necessary to perform the two-step goodwill impairment test described in ASC 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. This will become effective for fiscal years beginning after December 15, 2011. We have not yet adopted this accounting standard update and do not expect it to have a material impact on our consolidated financial statements.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

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

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As of December 31, 2011, we had $453.6 million of consolidated debt outstanding (excluding any discounts or premiums related to assumed debt). Of our total consolidated debt, $215.4 million, or 47.5%, was variable rate debt that is not subject to variable to fixed rate interest rate swap agreements. Of our total indebtedness, $238.2 million, or 52.5%, was subject to fixed interest rates, including variable rate debt that is subject to variable to fixed rate swap agreements. The weighted average interest rate for fixed rate debt was 6.24% as of December 31, 2011.

If LIBOR were to increase by 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $2.2 million. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

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Item 8. ***Financial Statements and Supplementary Data***

COGDELL SPENCER INC.

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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, 2011 and 2010, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, in the event the transactions described below do not occur, the Company may not remain in compliance with its required fixed charge coverage ratio related to its secured revolving credit facility and its secured term loan facility and then would be in default under the facilities agreements and may be required to repay the outstanding balances. This condition raises substantial doubt about the Company s ability to continue as a going concern. Management s plans concerning these matters are also described in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 3 to the consolidated financial statements, on December 24, 2011 the Company entered into an Agreement and Plan of Merger, which would result in all outstanding shares of common and preferred stock being immediately cancelled and converted to the right to receive cash, and a separate agreement for the sale of its design-build business. The completion of each of the transactions is contingent on the other transaction occurring.

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, 2011, based the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 30, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITE & TOUCHE LLP

McLean, Virginia

March 30, 2012

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COGDELL SPENCER INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	September 30, December 31, 2011	September 30, December 31, 2010
Assets		
Real estate properties:		
Land	$ 44,833	$ 37,269
Buildings and improvements	695,994	597,022
Less: Accumulated depreciation	(146,523)	(119,141)
Net operating real estate properties	594,304	515,150
Construction in progress	12,257	22,243
Net real estate properties	606,561	537,393
Cash and cash equivalents	16,729	12,203
Restricted cash	2,436	6,794
Tenant and accounts receivable, net of allowance of $3,180 in 2011 and $3,010 in 2010	19,981	11,383
Goodwill		22,882
Intangible assets, net of accumulated amortization of $38,563 in 2011 and $49,287 in 2010	19,290	18,601
Other assets	27,107	23,684
Total assets	$ 692,104	$ 632,940
Liabilities and equity		
Mortgage notes payable	$ 277,834	$ 317,303
Term loan	80,800	
Revolving credit facility	95,000	45,000
Accounts payable	16,101	11,368
Other liabilities	60,109	41,749
Total liabilities	529,844	415,420
Commitments and contingencies		
Equity:		
Cogdell Spencer Inc. stockholders equity:		
Preferred stock, $0.01 par value; 50,000 shares authorized:		
8.5000% Series A Cumulative Redeemable Perpetual Preferred Shares (liquidation preference $25.00 per share), 2,940 and 2,600 shares issued and outstanding in 2011 and 2010, respectively	$ 73,500	$ 65,000
Common stock, $0.01 par value; 200,000 shares authorized, 51,157 and 50,870 shares issued and outstanding in 2011 and 2010, respectively	512	509
Additional paid-in capital	419,559	417,960
Accumulated other comprehensive loss	(5,714)	(3,339)
Accumulated deficit	(344,986)	(287,798)
Total Cogdell Spencer Inc. stockholders equity	142,871	192,332
Noncontrolling interests:		
Real estate partnerships	9,332	6,452
Operating partnership	10,057	18,736

Total noncontrolling interests		19,389		25,188
Total equity		162,260		217,520
Total liabilities and equity	$	692,104	$	632,940

See notes to consolidated financial statements.

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COGDELL SPENCER INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	September 30, For the Year Ended December 31, 2011	September 30, For the Year Ended December 31, 2010	September 30, For the Year Ended December 31, 2009
Revenues:			
Rental revenue	$ 96,253	$ 87,803	$ 79,486
Design-Build contract revenue and other sales	79,019	91,256	143,416
Property management and other fees	3,143	3,212	3,336
Development management and other income	122	146	3,363
Total revenues	178,537	182,417	229,601
Expenses:			
Property operating and management	38,861	33,664	31,810
Design-Build contracts and development management	69,704	72,001	113,961
Selling, general, and administrative	24,841	30,411	32,285
Depreciation and amortization	33,292	32,841	34,502
Impairment charges	26,885	127,041	120,920
Total expenses	193,583	295,958	333,478
Loss from continuing operations before other income (expense) and income tax benefit (expense)	(15,046)	(113,541)	(103,877)
Other income (expense):			
Interest and other income	1,288	655	620
Gain on settlement from MEA Holdings, Inc. transaction			4,905
Interest expense	(21,287)	(21,994)	(21,711)
Debt extinguishment and interest rate derivative expense		(371)	(2,511)
Equity in earnings of unconsolidated real estate partnerships	21	13	15
Total other income (expense)	(19,978)	(21,697)	(18,682)
Loss from continuing operations before income tax benefit (expense)	(35,024)	(135,238)	(122,559)
Income tax benefit (expense)	(75)	16,352	22,124
Loss from continuing operations	(35,099)	(118,886)	(100,435)
Discontinued operations:			
Income (loss) from discontinued operations		6	(168)
Impairment of real estate property			(1,359)
Gain on sale of discontinued operations		264	
Total discontinued operations		270	(1,527)
Net loss	(35,099)	(118,616)	(101,962)
Net income attributable to the noncontrolling interests in real estate partnerships	(1,047)	(831)	(288)

Net loss attributable to the noncontrolling interests in operating partnership		5,433		15,566		32,522
Dividends on preferred stock		(6,248)		(208)		
Net loss attributable to Cogdell Spencer Inc. common shareholders	$	(36,961)	$	(104,089)	$	(69,728)
Per share data basic and diluted						
Loss from continuing operations attributable to Cogdell Spencer Inc. common shareholders	$	(0.72)	$	(2.20)	$	(2.10)
Income (loss) from discontinued operations attributable to Cogdell Spencer Inc. common shareholders						(0.04)
Net loss per common share available to Cogdell Spencer Inc. common shareholders	$	(0.72)	$	(2.20)	$	(2.14)
Weighted average common shares basic and diluted		51,068		47,456		32,655
Net loss attributable to Cogdell Spencer Inc. common shareholders:						
Continuing operations, net of tax	$	(36,961)	$	(104,321)	$	(68,500)
Discontinued operations				232		(1,228)
Net loss attributable to Cogdell Spencer Inc. common shareholders	$	(36,961)	$	(104,089)	$	(69,728)

See notes to consolidated financial statements.

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COGDELL SPENCER INC.

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September
					Cogdell Spencer Inc. Stockholders				
	Total Equity	Comprehensive Loss	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Series A Cumulative Redeemable Perpetual Preferred Shares	Common Stock	Additional Paid-in Capital	Noncontrolling Interests in Operating Partnership	Noncontroll Interests i Real Esta Partnershi
ce at ry 1,	282,994		(77,438)	(5,106)		177	275,380	85,324	4
rehensive									
come	(101,962)	(101,962)	(69,728)					(32,522)	
lized n tive ial ments, tax	5,185	5,185		3,760				611	
rehensive	(96,777)	(96,777)							
ce of on stock, costs	76,457					230	76,227		
ce of ing rship	5,262							5,262	
rsion of ing rship o on stock				(515)		20	18,830	(18,335)	
cted and LTIP rants	1,344						80	1,264	
ization ricted grants	113						76	37	
ends on on stock	(17,155)		(17,155)						
utions to ntrolling sts	(4,458)							(3,919)	
ce at nber 31,	247,780		(164,321)	(1,861)		427	370,593	37,722	5
rehensive									
	(118,616)	(118,616)	(103,881)					(15,566)	

come									
lized loss ivative ial ments, tax	(2,328)	(2,328)		(1,387)				(251)	
rehensive	(120,944)	(120,944)							
ce of on stock, costs	47,616					72	47,544		
ce of red stock, costs	62,564				65,000		(2,436)		
nption of ing rship	(133)			(4)			(39)	(90)	
ersion of ing rship o on stock				(87)		4	1,959	(1,876)	
cted and LTIP rants	2,038					6	194	1,838	
tization ricted grants	145						145		
ends on on stock	(19,388)		(19,388)						
ends on red stock	(208)		(208)						
butions to ntrolling sts	(4,326)							(3,041)	(1
buted in real rship	2,376								2
ce at mber 31,	217,520		(287,798)	(3,339)	65,000	509	417,960	18,736	6
rehensive									
come	(35,099)	(35,099)	(30,713)					(5,433)	1
lized loss ivative ial ments	(3,633)	(3,633)		(2,323)				(343)	
rehensive	(38,732)	(38,732)							
ce of red stock, costs	8,204				8,500		(296)		
ersion of ing rship o on stock				(52)		3	709	(660)	
	896						227	669	

cted and LTIP rants								
tization ricted grants	37					37		
ends on on stock	(20,227)	(20,227)						
ends on red stock	(6,248)	(6,248)						
butions to ntrolling sts	(3,674)						(2,912)	
buted in real rship	4,484					922		3
ce at mber 31,	$ 162,260	$ (344,986)	$ (5,714)	$ 73,500	$ 512	$ 419,559	$ 10,057	$ 9

See notes to consolidated financial statements.

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COGDELL SPENCER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	September 30, For the Year Ended December 31, 2011	September 30, For the Year Ended December 31, 2010	September 30, For the Year Ended December 31, 2009
Operating activities:			
Net loss	$ (35,099)	$ (118,616)	$ (101,962)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization (including amounts in discontinued operations)	33,292	32,841	34,502
Amortization of acquired above market leases and acquired below market leases, net (including amounts in discontinued operations)	(416)	(429)	(542)
Straight-line rental revenue	(1,923)	(1,206)	(556)
Amortization of deferred finance costs and debt premium	1,700	1,282	1,644
Provision for bad debts	170	192	2,624
Deferred income taxes		(16,419)	(18,614)
Deferred tax expense (benefit) on intersegment profits	75	67	(2,813)
Equity-based compensation	933	1,878	1,300
Equity in earnings of unconsolidated real estate partnerships	(21)	(13)	(15)
Debt extinguishment and interest rate derivative expense		(264)	2,511
Change in fair value of interest rate swap agreements		(897)	(757)
Impairment of goodwill, trade names and trademarks, intangible assets, and property, plant, and equipment	26,885	127,041	120,920
Impairment of real estate property			1,359
Gain on sale of real estate property		(264)	
Gain on settlement from MEA Holdings, Inc. transaction			(2,002)
Changes in operating assets and liabilities:			
Tenant and accounts receivable and other assets	(10,974)	2,203	32,118
Accounts payable and other liabilities	17,502	(8,641)	(20,438)
Billings in excess of costs and estimated earnings on uncompleted contracts	(227)	(11,259)	(3,836)
Net cash provided by operating activities	31,897	7,496	45,443
Investing activities:			
Business acquisitions, net of cash acquired			(8,022)
Investment in real estate properties, net of cash acquired	(99,772)	(42,914)	(54,572)
Proceeds from sales-type capital lease	306	306	306
Proceeds from the disposal of disontinued operations		2,481	
Purchase of corporate property, plant and equipment	(1,679)	(360)	(1,830)
Distributions received from unconsolidated real estate partnerships	7	7	6
Decrease (increase) in restricted cash	4,358	(3,734)	9,899
Net cash used in investing activities	(96,780)	(44,214)	(54,213)
Financing activities:			
Proceeds from mortgage notes payable	23,842	48,766	73,222
Repayments of mortgage notes payable	(63,286)	(30,130)	(30,813)
Proceeds from revolving credit facility	74,513	14,000	3,500
Repayments to revolving credit facility	(24,513)	(49,000)	(48,000)
Proceeds from term loan	80,800		
Repayment of term loan		(50,000)	(50,000)
Net proceeds from sale of common stock		47,616	76,457
Net proceeds from sale of preferred stock	8,204	62,564	

Redemptions of noncontrolling interests in operating partnership				(133)		
Dividends on common stock		(20,263)		(18,600)		(16,874)
Dividends on preferred stock		(5,918)				
Distributions to noncontrolling interest in the Operating Partnership		(2,983)		(2,265)		(5,261)
Distributions to noncontrolling interest in real estate partnerships		(762)		(1,285)		(539)
Equity contributions by partners in consolidated real estate partnerships		4,484		2,376		
Payment of financing costs		(4,709)		(902)		(1,676)
Net cash provided by financing activities		69,409		23,007		16
Increase (decrease) in cash and cash equivalents		4,526		(13,711)		(8,754)
Balance at beginning of period		12,203		25,914		34,668
Balance at end of period	$	16,729	$	12,203	$	25,914
Supplemental disclosure of cash flow information:						
Cash paid for interest, net of capitalized interest	$	20,853	$	22,247	$	21,998
Cash paid for income taxes	$	12	$	37	$	37

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COGDELL SPENCER INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(in thousands)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, For the Year Ended December 31, 2011	September 30, For the Year Ended December 31, 2010	September 30, For the Year Ended December 31, 2009
Non-cash investing and financing activities:			
Investment in real estate properties included in accounts payable and other liabilities	$ (1,758)	$ (319)	$ (4,490)
Mortgage note payable assumed with purchase of real estate property		15,580	
Accrued dividends and distributions	6,341	6,047	5,051
Operating Partnership Units converted into common stock	712	1,963	18,850
Equity-based compensation capitalized in real estate properties	270	305	

See notes to consolidated financial statements.

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COGDELL SPENCER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying consolidated financial statements have been prepared on the basis of the Company continuing as a going concern. As discussed in Note 10, the financial covenants related to our secured revolving credit facility and our secured term loan facility require a minimum fixed charge coverage ratio of 1.50 to 1.00 beginning April 1, 2012 through the initial maturity of the facilities. Due to the continued decline in the operations of our Design-Build and Development segment we may not remain in compliance with the required fixed charge coverage ratio and then would be in default under the facilities agreements and may be required to repay the outstanding balances. This condition raises substantial doubt about the Company s ability to continue as a going concern and, therefore, the Company may be unable to realize its assets and discharge its liabilities in the normal course of business.

As discussed in Note 3, we expect the Mergers to close in the second quarter of 2012; however there can be no assurances that the Mergers will close. We believe that in the event the Mergers were to fail to close that we will successfully negotiate terms with the lenders to avoid a default under the facilities, however there can be no assurances that such negotiations will be successful. As a result, the consolidated financial statements do not include any adjustments to reflect the possible effects on the recoverability of assets or the amounts of liabilities that may result from the resolution of the uncertainty about the Company s ability to continue as a going concern.

Use of Estimates in Financial Statements

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

Revenue Recognition

We derive the majority of our revenues from two main sources: 1) rents received from tenants under existing leases in healthcare facilities, and 2) revenue earned from design-build construction contracts and development contracts.

Rental Revenue and Property Management. Rental income related to non-cancelable operating leases is recognized as earned on a straight-line basis over the lease term, the period from the date the tenant has access and control over the leased space to the lease termination date. Rental income recognized on a straight-line basis may result in recognized revenue greater than or less than amounts contractually due from tenants for certain lease agreements, such as agreements with escalating rent payments. In addition, we may receive cash payments at the inception of a lease for tenant improvements. These amounts are included in Other liabilities in the consolidated balance sheets and are amortized into rental revenue over the lease term. Our leases generally contain provisions under which the tenants reimburse us for a portion of property operating expenses and real estate taxes. We monitor the creditworthiness of our tenants on a regular basis and maintain an allowance for doubtful accounts.

COGDELL SPENCER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We receive fees for property management and related services provided to third parties which are reflected as property management fee revenue. Management fees are generally based on a percentage of revenues for the month as defined in the related property management agreements. We also pay certain payroll and related costs related to the operations of third party properties that we manage. Under terms of the related management agreements, these costs are reimbursed by the third party property owners and recognized by us as revenue as they are characterized by GAAP as out of pocket expenses incurred in the performance of a service.

Design-Build Contract Revenue and Development Management. Design-Build contract revenue is recognized under the percentage-of-completion method of accounting. Revenues are determined by measuring the percentage of costs incurred to date to estimated total costs for each design-build contract based on current estimates of costs to complete. Contract costs include all labor and benefits, materials, subcontracts, and an allocation of indirect costs related to contract performance such as architectural, engineering, and construction management. Indirect costs are allocated to projects based upon labor hours charged. As long-term design-build projects extend over one or more years, revisions in cost and estimated earnings during the course of the work are reflected in the accounting period in which the facts which require the revision become known. At the time a loss on a design-build project becomes known, the entire amount of the estimated ultimate loss is recognized in the consolidated financial statements. Change orders are recognized when they are approved by the client.

Costs and estimated earnings in excess of billings on uncompleted design-build projects (underbillings) are included in Other assets in the consolidated balance sheets. Billings in excess of costs and estimated earnings on uncompleted design-build projects (overbillings) are included in Other liabilities in the consolidated balance sheets. Customers are billed on a monthly basis at the end of each month, which can be in advance of work performed. As a result, we typically generate billings in excess of costs and estimated earnings on design-build projects.

Revenue from project analysis and design agreements is accounted for on the completed contract method. Costs in excess of billings and billings in excess of costs on project analysis and design agreements are included with design-build projects over and underbillings in the consolidated balance sheets. Revenue from development agreements is recognized as earned per the agreements and costs are expensed as incurred.

Other income. Other income on our statement of operations generally includes income incidental to our operations and is recognized when earned. Interest and other income includes the amortization of unearned income related to a sales-type capital lease.

Warranties

We provide standard industry warranties in our design-build business, which generally are for one year after completion of a project. Buildings are guaranteed against defects in workmanship for one year after completion. The typical warranty requires that we replace or repair the defective item. We record an estimate for future warranty related costs based on actual historical warranty claims. This estimated liability is included in Other liabilities in the consolidated balance sheets. Based on analysis of warranty costs, the warranty provisions are adjusted as necessary. While warranty costs have historically been within calculated expectations, it is possible that future warranty costs could exceed expectations.

The changes in the carrying amounts of the total warranty liabilities for the periods shown are as follows (in thousands):

	September 30,	September 30,	September 30,
		For the Year Ended	
	December 31, 2011	December 31, 2010	December 31, 2009
Balance at the beginning of period	$ 980	$ 1,500	$ 4,331
Accruals	619	1,187	(218)
Settlements	(579)	(1,707)	(2,613)
Balance at the end of period	$ 1,020	$ 980	$ 1,500

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COGDELL SPENCER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

We elected to be taxed as a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement that 90% of ordinary REIT taxable income (as determined without regard to the dividends paid deduction or net capital gains) be distributed. As a REIT, we will generally not be subject to U.S. federal income tax to the extent that we meet the organizational and operational requirements and our distributions equal or exceed taxable income. For all periods subsequent to the REIT election, we have met the organizational and operational requirements and distributions have exceeded net taxable income. Accordingly, no provision has been made for federal and state income taxes, except as follows.

We have made the election to treat Cogdell Spencer TRS Holdings, LLC (TRS Holdings), our subsidiary which holds our design-build and development operations and our property management operations, as a taxable REIT subsidiary. As a taxable REIT subsidiary, the operations of TRS Holdings are generally subject to corporate income taxes. Our taxable REIT subsidiary accounts for its income taxes in accordance with GAAP, which includes an estimate of the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. The calculation of the taxable REIT subsidiary s tax provision may require interpreting tax laws and regulations and could result in the use of judgments or estimates which could cause its recorded tax liability to differ from the actual amount due. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The taxable REIT subsidiary periodically assesses the realizability of deferred tax assets and the adequacy of deferred tax liabilities, including the results of local, state, or federal statutory tax audits or estimates and judgments used.

We apply provisions for measuring and recognizing tax benefits associated with uncertain tax positions. Penalties and interest, if incurred, would be recorded as a component of income tax expense.

We defer income taxes paid on intercompany profits for real estate properties remaining on our consolidated balance sheet. Such taxes are presented with the related real estate property on the balance sheet, are amortized to income tax expense over the useful life of the related property, are assessed for impairment as part of the asset group and any remaining balance is removed from the balance sheet when the related property is removed. We did not defer income taxes paid on intercompany profits for real estate properties for the years ended December 31, 2011 and 2010.

Comprehensive Income or Loss

Comprehensive income or loss includes net income (loss) and all other non-owner changes in stockholders equity during the period including unrealized fair value adjustments on certain derivative agreements.

Cash and Cash Equivalents

We consider all short-term investments with maturities of three months or less when purchased to be cash equivalents. Restricted cash and short-term investments are excluded from cash for the purpose of preparing the consolidated statements of cash flows. The following table shows the composition of cash and cash equivalents for the periods shown:

	September 30, December 31, 2011	September 30, December 31, 2010
Corporate cash and cash equivalents (available for general corporate purposes)	$ 10,912	$ 10,561
Consolidated real estate partnership s cash and cash equivalents (available only for real estate partnership purposes, including distributions)	5,817	1,642

	$	16,729	$	12,203

Restricted Cash

Restricted cash includes escrow accounts held by lenders and banks. Restricted cash can also include proceeds from property sales deposited with a qualified intermediary in accordance with like-kind exchange income tax rules and regulations.

COGDELL SPENCER INC.

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Real Estate Properties and Related Intangible Assets

Land and buildings and improvements are recorded at cost. For developed properties, direct and indirect costs that clearly relate to projects under development are capitalized. Costs include construction costs, professional services such as architectural and legal costs, travel expenses, capitalized interest and direct payroll and other acquisition costs. We begin capitalization when the project is probable. Capitalization of interest ceases when the property is ready for its intended use, which is generally near the date that a certificate of occupancy is obtained.

Depreciation and amortization are computed using the straight-line method for financial reporting purposes. Buildings and improvements are depreciated over 13 to 50 years. Tenant improvement costs, which are included in building and improvements in the consolidated balance sheets, are depreciated over the shorter of (i) the related remaining lease term or (ii) the life of the improvement. Corporate property, plant and equipment, which are included in Other assets, are depreciated over three to seven years.

Acquisitions of properties are accounted for utilizing the acquisition method and accordingly the purchase cost is allocated to tangible and intangible assets and liabilities based on their fair values. The fair value of tangible assets acquired is determined by valuing the property as if it were vacant, applying methods similar to those used by independent appraisers of income-producing property. The resulting value is then allocated to land, buildings and improvements, and tenant improvements based on our determination of the fair value of these assets. The assumptions used in the allocation of fair values to assets acquired are based on our best estimates at the time of evaluation.

Fair value is assigned to above-market and below-market leases based on the difference between (a) the contractual amounts to be paid by the tenant based on the existing lease and (b) our estimate of current market lease rates for the corresponding in-place leases, over the remaining terms of the in-place leases. Capitalized above-market lease amounts are amortized as a decrease to rental revenue over the remaining terms of the respective leases. Capitalized below-market lease amounts are amortized as an increase to rental revenue over the remaining terms of the respective leases. If a tenant vacates its space prior to the contractual termination of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off.

The aggregate value of other acquired intangible assets consists of acquired ground leases and acquired in-place leases and tenant relationships. The fair value allocated to acquired in-place leases consists of a variety of components including, but not necessarily limited to: (a) the value associated with avoiding the cost of originating the acquired in-place leases (i.e. the market cost to execute a lease, including leasing commissions and legal fees, if any); (b) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period (i.e. real estate taxes, insurance and other operating expenses); (c) the value associated with lost rental revenue from existing leases during the assumed lease-up period; and (d) the value associated with any other inducements to secure a tenant lease.

We assess the potential for impairment of our long-lived assets, including real estate properties, annually or whenever events occur or a change in circumstances indicate that the recorded value might not be fully recoverable. We determine whether impairment in value has occurred by comparing the estimated future undiscounted cash flows expected from the use and eventual disposition of the asset to its carrying value. If the undiscounted cash flows do not exceed the carrying value, the real estate is adjusted to fair value and an impairment loss is recognized. Assets held for sale are recorded at the lower of cost or fair value less costs to sell.

All operations and gains and losses associated with sales of real estate property or assets classified as held for sale are reclassified and presented as discontinued operations.

See Note 9 regarding the write-down of our long-lived assets to implied fair market value.

Repairs, Maintenance and Major Improvements

The costs of ordinary repairs and maintenance are charged to operations when incurred. Major improvements that enhance the value or extend the life of an asset are capitalized and depreciated over the remaining useful life of the asset. In some circumstances lenders require us to maintain a reserve account for future repairs and capital expenditures. These amounts are classified as restricted cash.

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Capitalization of Interest

We capitalize interest costs on borrowings incurred during the construction and lease-up periods of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is depreciated over the useful lives of the assets. For the years ended December 31, 2011, 2010, and 2009, we capitalized interest of approximately $1.3 million, $0.9 million, and $1.0 million, respectively, in connection with various development projects.

Tenant and Accounts Receivable

Property Operations tenant and accounts receivable are recorded and carried at the amount billable per the applicable lease or contract agreement. Straight-line rent adjustments are included in Other assets in the consolidated balance sheets.

Design-Build and Development s accounts receivable are comprised primarily of contracts receivable. Contracts receivable from performing construction of healthcare facilities are recorded when invoiced and are based on contracted prices and billing terms. Normal contracts receivable are due 15 to 30 days after the issuance of the invoice. Contract retentions are due 15 to 30 days after completion of the project and acceptance by the owner. Receivables past due more than 180 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer. As construction contracts are long term, a portion of the contract retention receivable balance will not be collected within the next year.

An allowance for uncollectible accounts is made based upon a review of outstanding receivables, historical collection information, existing economic conditions, and other factors that may indicate collection of the full amount is no longer considered probable.

Investment in Capital Lease

Investment in capital lease consists of a building on a sales-type capital lease. Unearned income is amortized into interest income using a method that is not materially different from a method that produces a constant periodic rate of return on the net investment in the lease. The interest income is recorded in Interest and other income in the consolidated statements of operations. The investment in capital lease is included in Other assets in the consolidated balance sheets.

Deferred Financing Costs

Deferred financing costs include fees and costs incurred in conjunction with long-term financings and are amortized over the terms of the related debt using the straight-line method, which approximates the effective interest method. Upon repayment of or in conjunction with a substantial modification in the terms of the underlying debt agreement, any unamortized costs are charged to earnings. Deferred financing costs were $8.4 million, net of accumulated amortization of $2.9 million, as of December 31, 2011 and $7.1 million, net of accumulated amortization of $4.4 million, as of December 31, 2010. Deferred financing costs are included in Other assets in the consolidated balance sheets.

Unconsolidated Real Estate Partnerships

We record investments in which we do not control but exercise significant influence under the equity method. In circumstances where the real estate partnerships have distributions in excess of the investment and accumulated earnings or experienced net losses in excess of the investment and we have guaranteed debt of the entity or otherwise intend to provide financial support, we have reduced the carrying value of our investment below zero and recorded a liability in Other liabilities in the consolidated balance sheets. Services performed for real estate joint ventures and capitalized by real estate joint ventures are recognized to the extent attributable to the outside interests in the real estate joint venture.

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Goodwill and Intangible Assets

Goodwill is tested annually for impairment and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount, including goodwill, exceeds the reporting unit s fair value and the implied fair value of goodwill is less than the carrying amount of that goodwill. Non-amortizing intangible assets, such as trade names and trademarks, are subject to an annual impairment test based on fair value and amortizing intangible assets are tested whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

See Note 9 regarding the write-down of our goodwill and intangible assets related to the Design-Build and Development segment to zero.

Fair Value of Financial Instruments

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

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

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

We do not hold or issue financial instruments for trading purposes. We consider the carrying amounts of cash and cash equivalents, restricted cash, tenant and accounts receivable, accounts payable, and other liabilities to approximate fair value due to the short maturity of these instruments. We have estimated the fair value of debt utilizing present value techniques taking into consideration current market conditions. At December 31, 2011, the carrying amount and estimated fair value of debt was $453.6 million and $477.6 million, respectively. At December 31, 2010, the carrying amount and estimated fair value of debt was $362.3 million and $366.3 million, respectively.

See Note 9 regarding the write-down of our long-term assets to implied fair market value. See Note 11 regarding the fair value of our interest rate swap agreements.

Offering Costs

Underwriting commissions and other offering costs of raising equity are reflected as a reduction in additional paid-in capital.

Share Based Compensation

We measure share based compensation, including restricted stock grants and long-term incentive units (LTIP units) based on the estimated fair value of the award at the grant date, thus the share price of the common stock at the grant date. Where an observable market value of a similar instrument is not available, an option-pricing model is utilized. The compensation cost is recognized as an expense over the requisite service period required for vesting or when performance criteria for vesting is expected to be achieved.

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Per Share Data

Basic and diluted earnings per share are computed based upon the weighted average number of shares outstanding during the respective period.

Concentrations and Credit Risk

We maintain our cash in commercial banks. Balances on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to specific limits. Balances on deposit in excess of FDIC limits are uninsured. At December 31, 2011, we had bank cash balances of $1.3 million in excess of FDIC insured limits.

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

	September 30, December 31, 2011	**September 30, December 31, 2010**
Customer balances greater than 10% of tenants and accounts receivable	Three	One
Customer revenues greater than 10% of total revenue	One	One

Our consolidated wholly-owned and joint venture properties located in Georgia, North Carolina, and South Carolina, provided approximately 8.4%, 21.7% and 24.3%, respectively, of our total annualized rent for the year ended December 31, 2011.

Reclassifications

During 2009, we reclassified Harbison Medical Office Building, a wholly-owned real estate property, as discontinued operations as the criteria for classification as held for sale had been met. As such, we reclassified the results of operations to Discontinued Operations for all periods presented in the Consolidated Financial Statements in this Form 10-K. In June 2010, we sold Harbison Medical Office Building.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update, codified in Accounting Standards Codification (ASC) 820, Fair Value Measurement, which increases the disclosures around assets and liabilities measured at fair value. Entities will be required to disclose any significant transfers between Levels 1 and 2 of the fair value hierarchy, provide additional quantitative and qualitative information regarding fair value measurements categorized as Level 3 of the fair value hierarchy, and include the hierarchy classification for items whose fair value is not recorded on their consolidated balance sheets but are disclosed in their notes. This will become effective for fiscal years beginning after December 15, 2011. We have not yet adopted this accounting standard update and do not expect it to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued an accounting standard update, codified in ASC 220, Comprehensive Income, which changes the presentation of comprehensive income. Entities will have the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both instances, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This will become effective for fiscal years beginning after December 15, 2011. We have not yet adopted this accounting standard update and do not expect it to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued an accounting standards update, codified in ASC 350, Intangibles-Goodwill and Other. While this amendment does not change the calculation of goodwill impairment, it simplifies how companies test goodwill for impairment. Under this amendment, a company would be permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the fair value of a reporting unit is more than the carrying account, it is not necessary to perform the two-step goodwill impairment test described in ASC 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. This will become effective for fiscal years beginning after December 15, 2011. We have not yet adopted this accounting standard update and do not expect it to have a material impact on our consolidated financial statements.

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Subsequent Events

In January 2012, Mr. David J. Lubar resigned from our Company s Board of Directors.

3. Proposed Merger with Ventas; Sale of Erdman Business

Merger with Ventas

On December 24, 2011, we entered into an Agreement and Plan of Merger (the merger agreement) with our Operating Partnership, Ventas, Inc., a Delaware corporation (Ventas), TH Merger Corp, Inc., a Maryland corporation and Ventas wholly-owned subsidiary (MergerSub), and TH Merger Sub, LLC, a Delaware limited liability company and Ventas wholly owned subsidiary (OP MergerSub , and, together with Ventas and MergerSub, the Purchaser Parties). The merger agreement provides for the merger of us with MergerSub (the Company Merger) and the merger of OP MergerSub with and into the OP (the Partnership Merger and, together with the Company Merger, the Mergers).

At the effective time of the Company Merger, each share of our common stock that remains outstanding immediately prior to the effective time (other than shares of our common stock owned directly or indirectly, by us or any of our subsidiaries, Ventas, or MergerSub or any other direct or indirect subsidiary of Ventas (which shall be cancelled and retired and shall cease to exist and for which no consideration shall be delivered)) will be automatically cancelled and converted into the right to receive $4.25 in cash (the Per Share Consideration), without interest.

At the effective time of the Company Merger, each share of our Series A Preferred Stock that remains outstanding immediately prior to the effective time (other than shares of Series A Preferred Stock owned, directly or indirectly, by us or any of our subsidiaries, Ventas, or MergerSub or any other direct or indirect subsidiary of Ventas (which shall be cancelled and retired and shall cease to exist and for which no consideration shall be delivered)) will be automatically cancelled and converted into the right to receive an amount in cash equal to $25.00, plus all accrued and unpaid dividends thereon through and including the closing date of the Company Merger (the Per Share Preferred Consideration), without interest.

At the effective time of the Partnership Merger, each Operating Partnership unit (OP Unit) issued and outstanding immediately prior to the effective time (other than OP Units owned directly or indirectly, by us or any of our wholly owned subsidiaries) will be automatically cancelled and converted into the right to receive Per Share Consideration.

Completion of the Company Merger was subject to the approval of the affirmative vote of the holders of not less than a majority of the outstanding shares of our common stock, which we received at a special stockholders meeting held on March 9, 2012.

Completion of the merger is also subject to certain other conditions, including completion of the transactions contemplated by the Stock Purchase Agreement, dated December 24, 2011 (the Erdman purchase agreement) by and between Cogdell Spencer TRS Holdings, LLC (TRS Holdings) and Madison DB Acquisition, LLC (Madison DB) pursuant to which Madison DB will acquire all of the shares of our subsidiary, MEA Holdings, Inc. (MEA), which, together with its subsidiaries, engage in design-build and related development business under the Marshall Erdman name (the Erdman business).

The merger agreement contains certain termination rights for us and Ventas. Upon termination of the merger agreement under specified circumstances, the parties may be required to pay the other party a termination fee. If we are required to pay a termination fee as a result of our entering into an alternative acquisition agreement or completing an alternative transaction, the amount of the termination fee is $15 million plus reimbursement to Ventas for all reasonable out-of-pocket fees and expenses incurred by or on

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behalf of Ventas in an amount equal to $5 million. The merger agreement also provides that Ventas will be required to pay us a termination fee of $15 million plus expense reimbursement equal to $5 million if the merger agreement is terminated under certain circumstances because Ventas fails to complete the Company Merger or otherwise breaches its obligations under the merger agreement. In certain other termination scenarios, we may be obligated to reimburse Ventas for its reasonable out-of-pocket fees and expenses equal to $5 million, but will not be required to pay Ventas the termination fee.

Sale of Erdman Business

As discussed above, on December 24, 2011, TRS Holdings entered into the Erdman purchase agreement with Madison DB pursuant to which Madison DB will acquire the Erdman business. TRS Holdings will, prior to closing, contribute $11,720,000 (subject to certain adjustments) to MEA. TRS Holdings also has extinguished certain intercompany indebtedness of MEA. At closing, Madison DB will pay $1.00 to TRS Holdings and will contribute $11,720,000 (subject to certain adjustments) in working capital to MEA. Consummation of the transactions contemplated by the Erdman purchase agreement is subject to customary closing conditions, including satisfaction of all conditions to closing of the Mergers.

Mr. David Lubar, one of our former directors, is a principal of the investment fund that is providing Madison DB with its required equity funding. Mr. Lubar was excluded from, and did not participate in, deliberations of our Board of Directors regarding the merger agreement or the Erdman purchase agreement.

Our stockholders will not receive any consideration from the sale of MEA pursuant to the Erdman purchase agreement distinct from the consideration received pursuant to the merger agreement.

Assuming all necessary conditions are satisfied, which cannot be guaranteed, the Mergers are expected to close in the second quarter of 2012. Under the terms of each of the merger agreement and the Erdman purchase agreement, if the transactions contemplated thereby have not been completed by June 29, 2012, the parties to those agreements may terminate without penalty.

4. Minimum Future Rental Revenues

Our properties are generally leased to tenants under non-cancelable, fixed-term operating leases. Lease expiration dates extend as far as 2030 with some agreements providing for either fixed rent renewal terms or for market rent renewal terms. Our leases generally require the tenant to pay minimum rent, additional rent based upon increases in the Consumer Price Index, and all taxes (including property tax), insurance, maintenance and other operating costs associated with the leased property. No tenant occupied more than 10% of our net rentable square footage at year end.

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Future minimum lease payments by tenants under non-cancelable operating leases are as follows (in thousands):

For the year ending:	September 30,
2012	$ 91,741
2013	76,664
2014	68,062
2015	58,545
2016	50,418
Thereafter	165,257
	$ 510,687

We have one property leased to a tenant under a capital lease that began in 1987 and expires in 2017. The tenant is the owner of the land on which the building sits and has leased the land to us for the same term with a bargain renewal option, through 2027, that we intend to exercise. Upon renewal of the ground lease, the property lease automatically extends for the same 10 year extension period. The Investment in capital lease is included in Other assets in the consolidated financial statements in this Form 10-K and was as follows (in thousands):

	September 30, December 31, 2011	September 30, December 31, 2010
Total minimum lease payments	$ 10,299	$ 11,089
Less: Unearned income	(5,635)	(6,119)
Investment in capital lease	$ 4,664	$ 4,970

Total minimum lease payments receivable on the capital lease, exclusive of the operating expense reimbursement payments, are as follows (in thousands):

For the year ending:	September 30,
2012	$ 796
2013	624
2014	630
2015	636
2016	643
Thereafter	6,970
	$ 10,299

5. Investments in Real Estate Partnerships

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

Real Estate Entity	September 30, Entity Holdings	September 30, Year Founded	September 30, Our Ownership
Consolidated			
Good Sam MOB Investors, LLC	one property	2011	87.4%
Anchor Cogdell Doylestown GP, LLC	one property	2011	99.0%
Anchor Cogdell Covington, LLC	one property	2011	99.0%
Anchor Cogdell Florence, LLC	one property	2011	95.0%
Bonney Lake MOB Investors, LLC	one property	2009	61.7%
West Tennessee Investors MOB, LLC	one property	2008	50.5%
Genesis Property Holdings, LLC	one property	2007	40.0%
Cogdell Health Campus MOB, LP	one property	2006	80.9%
Mebane Medical Investors, LLC	one property	2006	35.1%
Rocky Mount MOB, LLC	one property	2002	34.5%
Unconsolidated			
Cogdell Spencer Medical Partners LLC	no assets or liabilities	2008	20.0%
BSB Health/MOB Limited Partnership No. 2	nine properties	2002	2.0%
Shannon Health/MOB Limited Partnership No. 1	ten properties	2001	2.0%
McLeod Medical Partners, LLC	three properties	1982	1.1%

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In 2011, we sold 49.5% of our 100% equity interest in West Tennessee Investors, LLC for $3.1 million. At December 31, 2011, we owned 50.5% of the membership interests and the entity and its one property are now accounted for as a consolidated real estate partnership. In association with this transaction, additional paid in capital within the Consolidated Statement of Changes in Equity increased $0.9 million.

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

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

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

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

	September 30, December 31, 2011	September 30, December 31, 2010
Financial position:		
Total assets	$ 54,034	$ 53,755
Total liabilities	46,410	47,272
Member's equity	7,623	6,483

	September 30, For the Year Ended December 31, 2011	September 30, For the Year Ended December 31, 2010	September 30, September 30, For the Year Ended December 31, 2009
Results of operations:			
Total revenues	$ 12,997	$ 11,905	$ 12,528
Operating and general and administrative expenses	5,828	5,612	5,977
Net income	1,322	996	800

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6. Acquisitions and Dispositions

Property Acquisitions

For the year ended December 31, 2011, we acquired three buildings totaling approximately 213,000 net rentable square feet (unaudited) for a total approximate investment of $41.0 million. The following table is an allocation of the purchase price for those acquisitions (in thousands):

	September 30,
Land	$ 4,418
Building and improvements	32,101
Acquired in place lease value and deferred leasing costs	4,476
Acquired above market leases	912
Acquired below market leases	(1,312)
Acquired below market ground lease	355
Total purchase price allocated	$ 40,950

For the year ended December 31, 2010, we acquired one building totaling approximately 72,000 net rentable square feet (unaudited) for a total approximate investment of $16.6 million. The following table is an allocation of the purchase price for that acquisition (in thousands):

	September 30,
Building and improvements	$ 13,796
Land improvements	10
Acquired in place lease value and deferred leasing costs	2,618
Acquired below market ground lease	214
Total purchase price allocated, net of cash acquired	$ 16,638

There were no property acquisitions in 2009.

Property Dispositions

In 2010, we sold Harbison Medical Office Building, located in Columbia, South Carolina for $2.5 million and recorded a gain on sale of $0.3 million. In 2009, the criteria for classification as held for sale had been met and the results of operations to were reclassified to Discontinued operations for all periods presented in the consolidated financial statements in this Form 10-K. This property is included in our Property Operations segment.

Below is a summary of discontinued operations for the real estate property reclassified to discontinued operations (in thousands):

	September 30, December 31, 2011	September 30, December 31, 2010	September 30, December 31, 2009

Revenues:			
Rental revenues	$	$ 139	$ 354
Total revenues		139	354
Expenses:			
Property operating and management		133	247
Depreciation and amortization			137
Interest expense			138
Total expenses		133	522
Income (loss) from discontinued operations before impairment of real estate property		6	(168)
Impairment of real estate property			(1,359)
Gain on sale of discontinued operations		264	
Total discontinued operations	$	$ 270	$ (1,527)

7. Business Segments

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

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

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The following tables represent the segment information for the years ended December 31, 2011, 2010 and 2009 (in thousands):

Year ended December 31, 2011	September 30, Property Operations	September 30, Design-Build and Development	September 30, Intersegment Eliminations	September 30, Unallocated and Other	September 30, Total
Revenues:					
Rental revenue	$ 96,253	$	$	$	$ 96,253
Design-Build contract revenue and other sales		122,080	(43,061)		79,019
Property management and other fees	3,143				3,143
Development management and other income		1,954	(1,832)		122
Total revenues	99,396	124,034	(44,893)		178,537
Certain operating expenses:					
Property operating and management	38,338				38,338
Design-Build contracts and development management		113,141	(43,437)		69,704
Selling, general, and administrative		15,863			15,863
Impairment charges		26,885			26,885
Total certain operating expenses	38,338	155,889	(43,437)		150,790
	61,058	(31,855)	(1,456)		27,747
Interest and other income	749	516		23	1,288
Corporate general and administrative expenses				(8,978)	(8,978)
Interest expense				(21,287)	(21,287)
Income tax expense applicable to funds from operations modified				(75)	(75)
Non-real estate related depreciation and amortization		(1,104)		(178)	(1,282)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	31				31
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,544)				(2,544)
Dividends on preferred stock				(6,248)	(6,248)
Funds from operations modified (FFOM)	59,294	(32,443)	(1,456)	(36,743)	(11,348)
Amortization of intangibles related to purchase accounting, net of income tax benefit	(169)	(756)			(925)
Funds from operations (FFO)	59,125	(33,199)	(1,456)	(36,743)	(12,273)
Real estate related depreciation and amortization	(31,095)				(31,095)

Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	2,544				2,544
Acquisition-related expenses	(523)				(523)
Dividends on preferred stock				6,248	6,248
Net income (loss)	$ 30,051	$ (33,199)	$ (1,456)	$ (30,495)	$ (35,099)
Total assets	$ 658,318	$ 33,222	$	$ 564	$ 692,104

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Year ended December 31, 2010	September 30, Property Operations	September 30, Design-Build and Development	September 30, Intersegment Eliminations	September 30, Unallocated and Other	September 30, Total
Revenues:					
Rental revenue	$ 87,895	$	$ (92)	$	$ 87,803
Design-Build contract revenue and other sales		113,997	(22,741)		91,256
Property management and other fees	3,212				3,212
Development management and other income		5,861	(5,715)		146
Total revenues	91,107	119,858	(28,548)		182,417
Certain operating expenses:					
Property operating and management	33,664				33,664
Design-Build contracts and development management		97,561	(25,560)		72,001
Selling, general, and administrative		17,373	(92)		17,281
Intangible asset impairment charges		127,041			127,041
Total certain operating expenses	33,664	241,975	(25,652)		249,987
	57,443	(122,117)	(2,896)		(67,570)
Interest and other income	607	3		45	655
Corporate general and administrative expenses				(13,130)	(13,130)
Interest expense				(21,994)	(21,994)
Interest rate derivative expense				(371)	(371)
Income tax benefit applicable to funds from operations modified				15,396	15,396
Non-real estate related depreciation and amortization		(997)		(229)	(1,226)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	26				26
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(2,031)				(2,031)
Discontinued operations, before real estate related depreciation and amortization	9			(3)	6
Dividends on preferred stock				(208)	(208)
Funds from operations modified (FFOM)	56,054	(123,111)	(2,896)	(20,494)	(90,447)
Amortization of intangibles related to purchase accounting, net of income tax benefit	(169)	(2,282)		956	(1,495)
Funds from operations (FFO)	55,885	(125,393)	(2,896)	(19,538)	(91,942)
Real estate related depreciation and amortization	(29,177)				(29,177)
Gain on sale of real estate property	264				264

Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	2,031				2,031
Dividends on preferred stock				208	208
Net income (loss)	$ 29,003	$ (125,393)	$ (2,896)	$ (19,330)	$ (118,616)
Total assets	$ 585,182	$ 47,457	$	$ 301	$ 632,940

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Year ended December 31, 2009	September 30, Property Operations	September 30, Design-Build and Development	September 30, Intersegment Eliminations	September 30, Unallocated and Other	September 30, Total
Revenues:					
Rental revenue	$ 79,578	$	$ (92)	$	$ 79,486
Design-Build contract revenue and other sales		176,124	(32,708)		143,416
Property management and other fees	3,336				3,336
Development management and other income		6,750	(3,387)		3,363
Total revenues	82,914	182,874	(36,187)		229,601
Certain operating expenses:					
Property operating and management	31,810				31,810
Design-Build contracts and development management		142,305	(28,344)		113,961
Selling, general, and administrative		20,541	(92)		20,449
Intangible asset impairment charges		120,920			120,920
Total certain operating expenses	31,810	283,766	(28,436)		287,140
	51,104	(100,892)	(7,751)		(57,539)
Interest and other income	541	48		31	620
Gain on settlement from MEA Holdings, Inc. transaction				4,905	4,905
Corporate general and administrative expenses				(11,836)	(11,836)
Interest expense				(21,711)	(21,711)
Interest rate derivative expense				(2,511)	(2,511)
Income tax benefit applicable to funds from operations modified				20,356	20,356
Non-real estate related depreciation and amortization		(779)		(225)	(1,004)
Earnings from unconsolidated real estate partnerships, before real estate related depreciation and amortization	27				27
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	(1,049)				(1,049)
Discontinued operations and impairment of real estate property held for sale, before real estate related depreciation and amortization	(1,253)			(137)	(1,390)
Funds from operations modified (FFOM)	49,370	(101,623)	(7,751)	(11,128)	(71,132)
Amortization of intangibles related to purchase accounting, net of income tax benefit	(169)	(4,364)		1,768	(2,765)
Funds from operations (FFO)	49,201	(105,987)	(7,751)	(9,360)	(73,897)
	(29,114)				(29,114)

Real estate related depreciation and amortization					
Noncontrolling interests in real estate partnerships, before real estate related depreciation and amortization	1,049				1,049
Net income (loss)	$ 21,136	$ (105,987)	$ (7,751)	$ (9,360)	$ (101,962)
Total assets	$ 555,072	$ 195,799	$	$ 1,792	$ 752,663

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8. Contracts

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

	September 30, December 31, 2011		September 30, December 31, 2010	
Costs and estimated earnings on uncompleted contracts	$	38,960	$	48,394
Billings to date		(38,102)		(49,336)
Net costs and estimated earnings (billings to date) in excess of billings to date (costs and estimated earnings)	$	858	$	(942)

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

	September 30, December 31, 2011		September 30, December 31, 2010	
Costs and estimated earnings in excess of billings (1)	$	2,561	$	988
Billings in excess of costs and estimated earnings (2)		(1,703)		(1,930)
Net costs and estimated earnings (billings in excess of costs and estimated earnings) in excess of billings in excess of costs and estimated earnings (costs and estimated earnings)	$	858	$	(942)

(1) Included in Other assets in the consolidated balance sheet

(2) Included in Other liabilities in the consolidated balance sheet

At December 31, 2011, the Company had retainage receivables of $2.4 million, which are included in Tenant and accounts receivable in the consolidated balance sheets.

9. Long Lived Assets

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

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

For the analysis at December 31, 2011, related to the proposed sale of the Design-Build and Development segment, we used the pending sales price as our indicator of the implied fair value of our goodwill and intangible assets.

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

COGDELL SPENCER INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

We performed an annual review of our real estate assets and concluded no impairment existed for those assets.

We recorded a goodwill and intangible asset impairment charge of $23.3 million related to the proposed sale of the Design-Build and Development segment. This charge, valued at a Level 2 measurement, reduced the carrying value of goodwill and customer relationships by $22.9 million and $0.4 million, respectively. These are non-cash charges. See Note 3 to these Consolidated Financial Statements for a discussion of the proposed sale of our company.

The following table presents information about our goodwill and customer relationships at fair value as of December 31, 2011 (in thousands):

Description	September 30, Recorded Value	September 30, Level 1	September 30, Fair Value Measurement Level 2	September 30, Level 3	September 30, Total Losses
Goodwill	$	$	$	$	$ (22,882)
Customer relationships					(397)
	$	$	$	$	$ (23,279)

See Note 2 to these Consolidated Financial Statements for a discussion of our accounting policy regarding the fair value of financial and non-financial assets.

Additionally, we recorded an impairment charge, valued at a Level 3 measurement, of $3.6 million related to land and property, plant, and equipment associated with the Design-Build and Development segment. The total impairment charge for goodwill, customer relationships, and property, plant, and equipment was $26.9 million.

Description	September 30, Recorded Value	September 30, Level 1	September 30, Fair Value Measurement Level 2	September 30, Level 3	September 30, Total Losses
Design-Build and Development segment land and property, plant, and equipment	$ 3,000	$	$	$ 3,000	$ (3,606)

Goodwill is not amortized. The following table shows the change in carrying value related to goodwill for the year ended December 31, 2011 (in thousands):

	September 30, Gross Amount	September 30, Accumulated Impairment	September 30, Net Carrying Value
Goodwill as of January 1, 2011	$ 180,438	$ (157,556)	$ 22,882
Impairment losses		(22,882)	(22,882)
Goodwill as of December 31, 2011	$ 180,438	$ (180,438)	$

Amortizing intangible assets and related impairment consisted of the following for the year ended December 31, 2011 (in thousands):

	September 30, Gross Amount	September 30, Accumulated Amortization	September 30, Impairment Charges	September 30, Net Carrying Value
In place lease value and deferred leasing costs	$ 47,760	$ (34,070)	$	$ 13,690
Ground leases	4,132	(813)		3,319
Property management contracts	2,098	(933)		1,165
Above market tenant leases	2,471	(1,355)		1,116
Customer relationships	1,789	(1,392)	(397)	
Total amortizing intangible assets	$ 58,250	$ (38,563)	$ (397)	$ 19,290

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Amortization expense related to intangibles for the year ended December 31, 2011 was $4.7 million. We expect to recognize amortization expense from the amortizing intangible assets as follows (in thousands):

For the years ending:	**September 30,**
2012	$ 3,389
2013	2,741
2014	2,512
2015	2,029
2016	1,342
Thereafter	7,277
	$ 19,290

For the year ended December 31, 2010

We performed an annual review of our real estate assets and concluded no impairment existed for those assets.

We recorded an impairment charge to goodwill of $85.8 million ($79.4 million after taxes). We also recorded impairment charges of $41.2 million ($25.2 million after taxes) related to trade names and trademarks. These were non-cash charges. We reviewed our position in the healthcare construction market place and our business development strategy. Based on our review of industry data, it was noted that our Design-Build and Development segment had lost market share in each of the previous two years. As a result, we lowered our expected future Design-Build and Development cash flows, which lowered the valuation of the reporting unit, and caused the impairment charges. Due to decreases in market share, changes in our brand name, and decreased emphasis on branding, we valued our acquired trade names and trademarks at zero as of December 31, 2010. We used a weighted-average cost of capital of 14.0%. We also evaluated our amortizing intangible assets and concluded no impairment existed for those assets.

The following table presents information about our goodwill and certain intangible assets measured at fair value as of December 31, 2010 (in thousands):

	September 30,	**September 30,**	**September 30,**	**September 30,**	**September 30,**
			Fair Value Measurement		
Description	**Recorded Value**	**Level 1**	**Level 2**	**Level 3**	**Total Losses**
Goodwill	$ 22,882	$	$	$ 22,882	$ (85,801)
Design-build customer relationships	1,153			1,161	
Trade names and trademarks					(41,240)
Design-build signed contracts				2,130	
Design-build proposals				938	
	$ 24,035	$	$	$ 27,111	$ (127,041)

See Note 2 to these Consolidated Financial Statements for a discussion of our accounting policy regarding the fair value of financial and non-financial assets.

Goodwill and trade names and trademarks are not amortized. The following table shows the change in carrying value related to goodwill and trade names and trademarks intangible assets for the year ended December 31, 2010 (in thousands):

	September 30, Gross Amount	September 30, Accumulated Impairment	September 30, Net Carrying Value
Goodwill as of January 1, 2010	$ 180,438	$ (71,755)	$ 108,683
Impairment losses		(85,801)	(85,801)
Goodwill as of December 31, 2010	$ 180,438	$ (157,556)	$ 22,882
Trade names and trademarks as of January 1, 2010	$ 75,968	$ (34,728)	$ 41,240
Impairment losses		(41,240)	(41,240)
Tradenames and trademarks as of December 31, 2010	$ 75,968	$ (75,968)	$

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Amortizing intangible assets consisted of the following for the year ended December 31, 2010 (in thousands):

	September 30, Gross Amount	September 30, Accumulated Amortization	September 30, Net Carrying Value
In place lease value and deferred leasing costs	$ 43,284	$ (30,721)	$ 12,563
Ground leases	3,776	(650)	3,126
Property management contracts	2,097	(763)	1,334
Design-build customer relationships	1,789	(636)	1,153
Above market tenant leases	1,559	(1,134)	425
Design-build signed contracts	13,253	(13,253)	
Design-build proposals	2,129	(2,129)	
Total amortizing intangible assets	$ 67,887	$ (49,286)	$ 18,601

For the year ended December 31, 2009

We performed an annual review of our real estate assets and concluded no impairment existed for those assets.

An interim review of the Design-Build and Development s intangible assets was performed on March 31, 2009, and as a result of that review we recorded an impairment charge to goodwill of $71.8 million. We also recorded impairment charges of $34.7 million ($21.2 million after taxes) related to trade names and trademarks and $14.4 million ($8.8 million after taxes) related to the amortizing intangibles of proposals and customer relationships. These were non-cash charges. The impairment charges were due to decline in our stock price, a decline in the cash flow multiples for comparable public engineering and construction companies, and changes in our cash flow projections resulting from a decline in backlog and delays and cancellations of client building projects. We used a weighted-average cost of capital of 14.5% and an estimated royalty rate of 2.0%.

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10. Debt

Debt consisted of the following (dollars in thousands):

	September 30, Stated Interest Rate (%)	September 30, Interest Rate (%)	September 30, Principal Balance As of December 31, 2011	September 30, Principal Balance As of December 31, 2010	September 30, Maturity Date	September 30, Amortization (years)
Secured mortgage loans - wholly-owned properties:						
Beaufort Medical Plaza	N/A	N/A	N/A	$ 4,637	8/18/2011	39
Mulberry Medical Park	N/A	N/A	N/A	863	9/15/2011	10
Methodist Professional Center I	N/A	N/A	N/A	25,250	10/31/2011	30
St. Francis Outpatient Surgery Center	N/A	N/A	N/A	13,000	11/29/2011	Interest only
River Hills Medical Plaza	N/A	N/A	N/A	3,445	12/22/2011	22
East Jefferson Medical Plaza	N/A	N/A	N/A	11,600	1/31/2012	Interest only
Barclay Downs	6.50	6.50	$ 4,172	4,278	11/15/2012	25
Providence Medical Office Building I, II and III	6.12	6.12	7,791	8,067	1/12/2013	25
One Medical Park	5.93	5.93	4,594	4,852	11/1/2013	20
Three Medical Park	5.55	5.55	7,224	7,455	3/25/2014	25
Medical Arts Center of Orangeburg	LIBOR + 3.25	6.00(1)	2,147	2,259	5/5/2014	20
Lancaster Rehabilitation Hospital	6.71	6.71	9,293	9,463	6/26/2014	25
Lancaster Rehabilitation Hospital	6.79	6.79	2,051	2,084	6/26/2014	25
Rowan Outpatient Surgery Center	6.00	6.00	3,052	3,148	7/6/2014	25
East Jefferson MOB	6.01	6.01	8,486	8,735	8/10/2014	25
Rocky Mount Kidney Center	6.75	6.75	921	962	8/21/2014	15
Randolph Medical Park, Lincoln/Lakemont Family Practice, and Northcross Family Physicians	7.00	7.00	7,112	7,303	10/15/2014	20
MRMC MOB I	7.33	7.33	5,811	5,905	11/1/2014	25
HealthPartners Medical & Dental Clinics	LIBOR + 3.25	6.80(2)	11,817	12,065	11/1/2014	22.5
St. Francis CMOB, St. Francis Professional Medical Center	LIBOR + 2.25	2.55	9,000	6,688	11/15/2014	25 (3)
St. Francis Medical Plaza (Greenville), St. Francis Women s	LIBOR + 2.25	2.55	8,170	7,184	11/15/2014	25 (3)
Copperfield Medical Mall, Harrisburg Medical Mall, Midland Medical Park and Weddington & Internal/Pediatric Medicine	LIBOR + 1.50	3.25(4)	7,751	8,017	12/15/2014	25
Peerless Crossing Medical Center	6.06	6.06	7,145	7,253	9/1/2016	30
Duluth MOB	LIBOR + 3.50	5.50(5)	153		9/30/2016	25 (6)

Rocky Mount Medical Park	LIBOR + 3.50	3.80(7)	10,088	10,279	10/22/2016	25
Palmetto Health Parkridge	5.68	5.68	13,500	13,500	6/1/2017	Interest only (8)
Central NY Medical Center	6.22	6.22	24,500	24,500	7/1/2017	Interest only
Summit Professional Plaza I and II	6.18	6.18	15,925	15,925	9/1/2017	Interest only
University Physicians MOB & Outpatient Clinic	LIBOR + 2.25	5.95(2)	10,219	10,408	4/20/2019	25
Roper Medical Office Building	7.10	7.10	9,122	9,281	6/1/2019	25
Health Park Medical Office Building	7.50	7.50	6,794	6,901	12/1/2019	25
Total / weighted average mortgages - wholly-owned properties		**5.77**	**196,838**	**255,307**		
Secured revolving credit facility:						
Tranche I	LIBOR + 3.25	3.55	95,000		3/1/2014	Interest only
Tranche II	N/A	N/A	N/A	30,000		
Tranche I	N/A	N/A	N/A	15,000		
Total / weighted average secured revolving credit facility		**3.55**	**95,000**	**45,000**		
Term Loan	LIBOR + 3.75	4.05	80,800		8/2/2014	Interest only
Consolidated real estate partnerships:						
Alamance Regional Mebane Outpatient Center	LIBOR + 1.30	1.60	10,873	10,838	5/15/2012	30
Alamance Regional Mebane Outpatient Center	LIBOR + 4.00	4.30	1,461	1,470	5/15/2012	30
Lancaster ASC MOB	LIBOR + 1.20	5.23(2)	9,976	10,210	3/2/2015	25
Good Sam Medical Office Building	7.85	7.85(9)	12,281		6/30/2015	25 (6)
English Road Medical Center	4.99	4.99	5,040	5,162	4/1/2016	25
Woodlands Center for Specialized Medicine	LIBOR + 1.50	6.21(2)	16,311	16,610	9/26/2018	25
Bonney Lake Medical Office Building	LIBOR + 3.25	6.44(2)	10,565	2,937	2/5/2019	25 (6)
Medical Center Physicians Tower	LIBOR + 2.50	6.19(2)	14,450	14,707	3/1/2019	25
Total / weighted average consolidated real estate partnerships		**5.63**	**80,957**	**61,934**		
Total / weighted average debt			**453,595**	**362,241**		
Unamortized premium			39	62		
Total / weighted average debt		**4.97**	**$ 453,634**	**$ 362,303**		

(1) Minimum interest of 6.00%.

(2) Represents the fixed rate for floating rate loans that have been swapped to fixed.

(3) Interest only through November 2012. Principal and interest payments from December 2012 through November 2014.

(4) Maximum interest of 8.25%; minimum interest of 3.25%.

(5) Interest Rate of 5.5% during construction period.

(6) Interest only during construction period.

(7) Maximum interest of 6.50%.

(8) Interest only through June 2012. Principal and interest payments from July 2012 through June 2017.

(9) Interest of 7.85% during construction, 7.5% @ occupancy, 7.1% @ 75% occupancy with $1,615,000 NOI.

The LIBOR rate was 0.30% and 0.26% at December 31, 2011 and 2010, respectively. The prime rate was 3.25% at December 31, 2011 and 2010.

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

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The financial covenants related to our secured revolving credit facility (Credit Facility) and our secured term loan facility (the Term Loan Facility) require a minimum fixed charge coverage ratio (ratio of adjusted consolidated earnings before interest taxes and depreciation for a trailing 12 month period, as defined in the facilities, to fixed charges, representing interest, scheduled principal payments and preferred dividends) of 1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 beginning April 1, 2012 through the initial maturity of the facilities. As of December 31, 2011, our ratio for this covenant was 1.44 to 1.00. Should our ratio for this covenant fall below 1.35 to 1.00 for the first quarter of 2012 or below 1.50 to 1.00 for quarters subsequent to first quarter 2012, then we will be in default on the facilities agreements and may be required to repay the outstanding balances or pay a default rate interest rate.

Secured Revolving Credit Facility

On March 1, 2011, we amended and restated our Credit Facility. This $200.0 million Credit Facility is held with a syndicate of financial institutions. The Credit Facility is available (1) to fund working capital and other general corporate purposes, (2) to finance acquisition and development activity, and (3) to refinance existing and future indebtedness. The Credit Facility permits us to borrow, subject to borrowing base availability, up to $200.0 million of revolving loans, with sub-limits of $25.0 million for swingline loans and $25.0 million for letters of credit. As of December 31, 2011, the maximum available borrowings under the Credit Facility was $121.5 million based on 70% of the value of the aggregate property pledged as collateral. As of December 31, 2011, there was $18.5 million available under the Credit Facility as $95.0 million was outstanding and $8.0 million of availability was restricted related to outstanding letters of credit. We have the ability to increase the availability by pledging additional unencumbered property to the Credit Facility.

The Credit Facility also allows for up to $150.0 million of increased availability (to a total aggregate available amount of $350.0 million), at our request but subject to each lender s option to increase its commitment. The interest rate on loans under the Credit Facility equals, at our election, either (1) LIBOR (0.30% as of December 31, 2011) plus a margin of between 275 to 350 basis points based on our total leverage ratio (3.25% as of December 31, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate (3.25% as of December 31, 2011) plus a margin of between 175 to 250 (2.25% as of December 31, 2011) basis points based on our total leverage ratio.

The Credit Facility contains customary terms and conditions for credit facilities of this type, including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2012, and 1.50 to 1.00 thereafter), minimum consolidated tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances issued after the closing date of March 1, 2011) and minimum net operating income ratio from properties secured under the Credit Facility to Credit Facility interest expense (1.50 to 1.00). Additionally, provisions in the Credit Facility indirectly prohibit us from redeeming or otherwise repurchasing any shares of our stock, including our preferred stock.

On August 1, 2011, we entered into Amendment No. 2 to the Credit Facility (Amendment No. 2 to the Credit Facility). Amendment No. 2 to the Credit Facility modified, among other things, the financial covenant to exclude the Term Loan Facility, discussed below, from the calculation of the secured recourse indebtedness ratio and to decrease the maximum secured recourse indebtedness ratio to 15%. Prior to Amendment No. 2 to the Credit Facility, we entered into Amendment No. 1 to the Credit Facility (Amendment No. 1 to the Credit Facility) to make a non-material change to revise a negative covenant that unintentionally restricted our ability to incur liens securing recourse indebtedness for us or our subsidiaries.

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Term Loan

On August 2, 2011, we closed on an $80.8 million Term Loan Facility, dated as of August 2, 2011, among us, as a Guarantor, the Operating Partnership, as Borrower, Bank of America, N.A., as administrative agent, and the other lenders from time to time party thereto. Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as the sole lead arranger and sole bookrunner for the Term Loan Facility.

We used the proceeds of the Term Loan Facility to refinance $58.6 million of certain mortgages that mature in 2011 and 2012 and to pay down $22.2 million of our $200 million secured Credit Facility. The Term Loan Facility matures on August 2, 2014, subject to a one-year extension at our option conditioned upon continued compliance with the representations, warranties and covenants, and payment of a fee to the lenders. The Term Loan Facility also contains an accordion feature, which permits us to request the lenders, from time to time, to increase the facility to a total borrowing amount of $130.8 million, subject to continued compliance with the representations, warranties, and covenants.

Borrowings under the Term Loan Facility bear interest at either (1) LIBOR (0.30% as of December 31, 2011) plus a margin of between 325 to 400 basis points based on our total leverage ratio (3.75% as of December 31, 2011) or (2) the higher of the federal funds rate plus 50 basis points or Bank of America, N.A. s prime rate (3.25% as of December 31, 2011) plus a margin of between 225 to 300 (2.75% as of December 31, 2011) basis points based on our total leverage ratio.

The Term Loan Facility is secured by a pledge of our ownership interests in certain of our property-owning subsidiaries. We will be required, however, to deliver mortgages on the borrowing base properties if we exceed a specified leverage ratio or fail to meet a specified fixed charge ratio. The Term Loan Facility is guaranteed by us and certain of our subsidiaries.

We are subject to customary covenants substantially similar to those for the Credit Facility including, but not limited to, (1) affirmative covenants relating to our corporate structure and ownership, maintenance of insurance, compliance with environmental laws and preparation of environmental reports, (2) negative covenants relating to restrictions on liens, indebtedness, certain investments (including loans and certain advances), mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates, maintenance of our REIT qualification and listing on the NYSE or NASDAQ, and (3) financial covenants to be met by us at all times including a maximum total leverage ratio (65% through March 31, 2013, and 60% thereafter), maximum secured recourse indebtedness ratio, excluding the indebtedness under the Term Loan Facility and the Credit Facility (15%), minimum fixed charge coverage ratio (1.35 to 1.00 through March 31, 2013, and 1.50 to 1.00 thereafter), and minimum consolidated tangible net worth ($237.1 million plus 80% of the net proceeds of equity issuances occurring after the closing date of the Term Loan Facility). In addition to the covenants above, we are also subject to a debt service coverage ratio (1.30 to 1.00 or greater), which is based on our net operating income attributable to the borrowing base properties.

In December 2010, we repaid $50.0 million outstanding under the 2008 amended senior secured term facility (the 2008 Term Loan) in full and there was no amount outstanding as of December 31, 2010.

Notes Payable

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

In March 2011, we began construction on a new project located in Duluth, Minnesota. We obtained construction financing with a maximum principal balance of $19.5 million and an interest rate of LIBOR plus 3.25%, with a minimum interest rate of 5.5%. Monthly payments are interest only during the construction period and thereafter will be principal and interest based on a 25-year amortization. The mortgage note matures in September 2016.

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Scheduled maturities

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

For the year ending:	**September 30,**
2012	$ 21,516
2013	17,626
2014	256,765
2015	22,312
2016	22,423
Thereafter	112,953
	$ 453,595

As of December 31, 2011, we had $21.5 million of principal and maturity payments related to mortgage notes payable due in 2012. The $21.5 million is comprised of $5.1 million for principal amortization and $16.4 million for maturities. We believe we will be able to refinance or extend the remaining $16.4 million of 2012 balloon maturities as a result of the current loan to value ratios at individual properties and preliminary discussions with lenders.

11. Derivative Financial Instruments

Interest rate swap and interest rate cap agreements are utilized to reduce exposure to variable interest rates associated with certain mortgage notes payable. These agreements involve an exchange of fixed and floating interest payments without the exchange of the underlying principal amount (the notional amount) or a cap on the referenced rate. The interest rate swap and interest rate cap agreements are reported at fair value in the consolidated balance sheet within Other assets or Other liabilities and changes in the fair value, net of tax where applicable, are reported in accumulated other comprehensive income (loss) (AOCI) exclusive of ineffective amounts. Ineffective amounts of change in the fair value, net of tax where applicable, are reported in income. Ineffectiveness may occur due to derivative overperformance, which is generally caused by a lack of notional on the debt or differences in reset terms between the debt and the derivative. The following table summarizes the terms of our interest rate swap agreements and their fair values at December 31, 2011 and December 31, 2010 (dollars in thousands):

	xxx	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**	**xxx**
	As of December 31, 2011					**December 31, 2011**		**December 31, 2010**	
Entity/Property	**Notional Amount**	**Receive Rate**	**Pay Rate**	**Effective Date**	**Expiration Date**	**Asset**	**Liability**	**Asset**	**Liability**
River Hills Medical Plaza	$ 2,943	1 Month LIBOR	1.78%	1/15/2009	1/31/2012	$	$ 4	$	$ 50
HealthPartners Medical Office Building	11,572	1 Month LIBOR	3.55%	6/1/2010	11/1/2014		960		899
Lancaster ASC MOB	10,138	1 Month LIBOR	4.03%	3/14/2008	3/2/2015		1,032		938
Bonney Lake MOB Investors LLC	11,474	1 Month LIBOR	3.19%						