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Series B Cumulative Redeemable Preferred Shares, par value \$0.01 per share:	3,400,000
Common Shares, par value \$0.01 per share:	99,394,943

CRESCENT REAL ESTATE EQUITIES COMPANY FORM 10-Q TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 2004 (unaudited) and December 31, 2003 (unaudited).....

Consolidated Statements of Operations for the three and six months ended June 30, 2004 and 2003 (unaudited).....

Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2004 (unaudited).....

Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2003 (unaudited).....

Notes to Consolidated Financial Statements.....

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

Item 4. Controls and Procedures.....

PART II: OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds.....

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

Item 6. Exhibits and Reports on Form 8-K.....

PART I

ITEM 1. FINANCIAL STATEMENTS

CRESCENT REAL ESTATE EQUITIES COMPANY CONSOLIDATED BALANCE SHEETS (in thousands, except share data) (unaudited)

JUNE 30,
2004

DECEMBER 31,
2003

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ASSETS:

Investments in real estate:

Land	\$	264,276	\$	2
Land improvements, net of accumulated depreciation of \$21,253 and \$19,270 at June 30, 2004 and December 31, 2003, respectively		108,949		1
Building and improvements, net of accumulated depreciation of \$613,103 and \$576,682 at June 30, 2004 and December 31, 2003, respectively		2,293,002		2,1
Furniture, fixtures and equipment, net of accumulated depreciation of \$41,263 and \$33,344 at June 30, 2004 and December 31, 2003, respectively		50,977		
Land held for investment or development		480,159		4
Properties held for disposition, net		138,333		2

Net investment in real estate	\$	3,335,696	\$	3,1
-------------------------------	----	-----------	----	-----

Cash and cash equivalents	\$	57,026	\$	
Restricted cash and cash equivalents		61,311		2
Defeasance investments		173,903		
Accounts receivable, net		46,514		
Deferred rent receivable		74,685		
Investments in unconsolidated companies		346,637		4
Notes receivable, net		73,992		
Income tax asset-current and deferred, net		27,929		
Other assets, net		269,813		2

Total assets	\$	4,467,506	\$	4,3
--------------	----	-----------	----	-----

LIABILITIES:

Borrowings under Credit Facility	\$	232,500	\$	2
Notes payable		2,478,149		2,3
Accounts payable, accrued expenses and other liabilities		428,319		3
Current income tax payable		--		

Total liabilities	\$	3,138,968	\$	2,9
-------------------	----	-----------	----	-----

COMMITMENTS AND CONTINGENCIES:

MINORITY INTERESTS:

Operating partnership, 8,864,311 and 8,873,347 units, at June 30, 2004 and December 31, 2003, respectively	\$	91,844	\$	1
Consolidated real estate partnerships		43,882		

Total minority interests	\$	135,726	\$	1
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SHAREHOLDERS' EQUITY:

Preferred shares, \$0.01 par value, authorized 100,000,000 shares:				
Series A Convertible Cumulative Preferred Shares, liquidation preference of \$25.00 per share, 14,200,000 and 10,800,000 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	\$	319,166	\$	2
Series B Cumulative Preferred Shares, liquidation preference of \$25.00 per share, 3,400,000 shares issued and outstanding at June 30, 2004 and December 31, 2003		81,923		
Common shares, \$0.01 par value, authorized 250,000,000 shares, 124,444,012 and 124,396,168 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively		1,238		
Additional paid-in capital		2,245,955		2,2

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Deferred compensation on restricted shares	(3,450)	
Accumulated deficit	(987,744)	(8
Accumulated other comprehensive income	(4,128)	(
	-----	-----
Less - shares held in treasury, at cost, 25,121,861 common shares at June 30, 2004 and December 31, 2003	\$ 1,652,960	\$ 1,6
	(460,148)	(4
	-----	-----
Total shareholders' equity	\$ 1,192,812	\$ 1,2
	-----	-----
Total liabilities and shareholders' equity	\$ 4,467,506	\$ 4,3
	=====	=====

The accompanying notes are an integral part
of these consolidated financial statements.

3

CRESCENT REAL ESTATE EQUITIES COMPANY CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except share data) (unaudited)

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
	-----	-----
REVENUE:		
Office Property	\$ 131,752	\$ 118,761
Resort/Hotel Property	40,253	39,291
Residential Development Property	55,591	61,973
	-----	-----
Total Property revenue	\$ 227,596	\$ 220,025
	-----	-----
EXPENSE:		
Office Property real estate taxes	\$ 16,719	\$ 17,120
Office Property operating expenses	43,654	41,423
Resort/Hotel Property expense	35,833	33,361
Residential Development Property expense	51,761	55,572
	-----	-----
Total Property expense	\$ 147,967	\$ 147,476
	-----	-----
Income from Property Operations	\$ 79,629	\$ 72,549
	-----	-----
OTHER INCOME (EXPENSE):		
Income from investment land sales, net	\$ 949	\$ 1,628
Gain on joint venture of properties, net	--	--
Interest and other income	2,942	1,155
Corporate general and administrative	(6,794)	(5,729)
Interest expense	(45,429)	(43,046)
Amortization of deferred financing costs	(3,076)	(2,545)
Extinguishment of debt	(988)	--

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Depreciation and amortization	(42,390)	(32,864)
Impairment charges related to real estate assets	--	--
Other expenses	(94)	(785)
Equity in net income (loss) of unconsolidated companies:		
Office Properties	748	1,864
Resort/Hotel Properties	(18)	1,382
Residential Development Properties	(393)	1,540
Temperature-Controlled Logistics Properties	(2,707)	(406)
Other	(515)	214
	-----	-----
Total Other Income (Expense)	\$ (97,765)	\$ (77,592)
	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES	\$ (18,136)	\$ (5,043)
Minority interests	2,205	(1,117)
Income tax benefit	5,324	3,067
	-----	-----
LOSS BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	\$ (10,607)	\$ (3,093)
Income from discontinued operations, net of minority interests	3,621	4,496
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(424)	(840)
Loss on real estate from discontinued operations, net of minority interests	(2,073)	(41)
Cumulative effect of a change in accounting principle, net of minority interests	--	--
	-----	-----
NET (LOSS) INCOME	\$ (9,483)	\$ 522
Series A Preferred Share distributions	(5,991)	(4,556)
Series B Preferred Share distributions	(2,019)	(2,019)
	-----	-----
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (17,493)	\$ (6,053)
	=====	=====
BASIC EARNINGS PER SHARE DATA:		
Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	\$ (0.19)	\$ (0.10)
Income from discontinued operations, net of minority interests	0.03	0.05
Impairment charges related to real estate assets from discontinued operations, net of minority interests	--	(0.01)
Loss on real estate from discontinued operations, net of minority interests	(0.02)	--
Cumulative effect of a change in accounting principle, net of minority interests	--	--
	-----	-----
Net loss available to common shareholders - basic	\$ (0.18)	\$ (0.06)
	=====	=====
DILUTED EARNINGS PER SHARE DATA:		
Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	\$ (0.19)	\$ (0.10)
Income from discontinued operations, net of minority interests	0.03	0.05
Impairment charges related to real estate assets from		

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discontinued operations, net of minority interests	--	(0.01)
Loss on real estate from discontinued operations, net of minority interests	(0.02)	--
Cumulative effect of a change in accounting principle, net of minority interests	--	--
	-----	-----
Net loss available to common shareholders - diluted	\$ (0.18)	\$ (0.06)
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

4

CRESCENT REAL ESTATE EQUITIES COMPANY CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (dollars in thousands) (unaudited)

	Series A Preferred Shares		Series B Preferred Shares		
	Shares	Net Value	Shares	Net Value	
SHAREHOLDERS' EQUITY, December 31, 2003	10,800,000	\$ 248,160	3,400,000	\$ 81,923	
Issuance of Common Shares	--	--	--	--	
Exercise of Common Share Options	--	--	--	--	
Accretion of Discount on Employee Stock Option Notes	--	--	--	--	
Issuance of Shares in Exchange for Operating Partnership Units	--	--	--	--	
Preferred Equity Issuance	3,400,000	71,006	--	--	
Stock Option Grants	--	--	--	--	
Amortization of Deferred Compensation on Restricted Shares	--	--	--	--	
Dividends Paid	--	--	--	--	
Net Loss Available to Common Shareholders	--	--	--	--	
Unrealized Gain on Marketable Securities	--	--	--	--	
Unrealized Net Gain on Cash					

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Flow Hedges	--	--	--	--	--
SHAREHOLDERS' EQUITY, June 30, 2004	14,200,000	\$ 319,166	3,400,000	\$ 81,923	
	=====	=====	=====	=====	=====
	Common Shares		Additional	Deferred	
	-----		Paid-in	Compensation	
	Shares	Par Value	Capital	on Restricted	Accu
	-----	-----	-----	Shares	(De
SHAREHOLDERS' EQUITY, December 31, 2003	124,396,168	\$ 1,237	\$ 2,245,683	\$ (4,102)	\$ (
Issuance of Common Shares	3,872	--	64	--	
Exercise of Common Share Options	25,900	1	361	--	
Accretion of Discount on Employee Stock Option Notes	--	--	(126)	--	
Issuance of Shares in Exchange for Operating Partnership Units	18,072	--	--	--	
Preferred Equity Issuance	--	--	--	--	
Stock Option Grants	--	--	(27)	--	
Amortization of Deferred Compensation on Restricted Shares	--	--	--	652	
Dividends Paid	--	--	--	--	
Net Loss Available to Common Shareholders	--	--	--	--	
Unrealized Gain on Marketable Securities	--	--	--	--	
Unrealized Net Gain on Cash Flow Hedges	--	--	--	--	
SHAREHOLDERS' EQUITY, June 30, 2004	124,444,012	\$ 1,238	\$ 2,245,955	\$ (3,450)	\$ (
	=====	=====	=====	=====	=====

The accompanying notes are an integral part
of these consolidated financial statements.

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(unaudited)

	FOR THE SIX MONTHS ENDED J	
	2004	20
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (20,310)	\$
Adjustments to reconcile net loss to net cash provided operating activities:		
Depreciation and amortization	88,433	
Residential Development cost of sales	40,904	
Residential Development capital expenditures	(62,352)	
Impairment charges related to real estate assets from discontinued operations, net of minority interests	2,418	
Loss on real estate from discontinued operations, net of minority interests	2,120	
Discontinued operations - depreciation and minority interests	3,200	
Extinguishment of debt	2,927	
Impairment charges related to real estate assets	--	
Income from investment in land sales, net	(949)	
Gain on joint venture of properties, net	--	
Minority interests	(4,126)	
Cumulative effect of a change in accounting principle, net of minority interests	363	
Non-cash compensation	563	
Equity in (earnings) loss from unconsolidated companies:		
Office Properties	(1,690)	
Resort/Hotel Properties	247	
Residential Development Properties	307	
Temperature-Controlled Logistics Properties	3,608	
Other	581	
Distributions received from unconsolidated companies:		
Office Properties	3,083	
Residential Development Properties	--	
Temperature-Controlled Logistics Properties	1,822	
Other	550	
Change in assets and liabilities, net of consolidations and acquisitions:		
Restricted cash and cash equivalents	44,257	
Accounts receivable	(4,186)	
Deferred rent receivable	(9,414)	
Income tax asset - current and deferred, net	(18,933)	
Other assets	(29,687)	
Accounts payable, accrued expenses and other liabilities	(18,008)	
Net cash provided by operating activities	\$ 25,728	\$
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash impact of consolidation of previously unconsolidated entities	\$ 334	\$
Proceeds from property sales	78,826	
Acquisition of investment properties	(164,391)	
Development of investment properties	(1,881)	
Property improvements - Office Properties	(6,116)	
Property improvements - Resort/Hotel Properties	(15,960)	
Tenant improvement and leasing costs - Office Properties	(46,674)	
Residential Development Properties Investments	(17,308)	
Decrease (increase) in restricted cash and cash equivalents	113,275	

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Purchase of defeasance investments	(169,778)	
Proceeds from defeasance investments maturities	5,495	
Return of investment in unconsolidated companies:		
Office Properties	731	
Resort/Hotel Properties	612	
Residential Development Properties	14	
Temperature-Controlled Logistics Properties	90,776	
Other	236	
Investment in unconsolidated companies:		
Office Properties	(29)	
Residential Development Properties	(871)	
Temperature-Controlled Logistics Properties	(2,406)	
Other	(13)	
Decrease in notes receivable	98	
Net cash used in investing activities	\$ (135,030)	\$
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	\$ (6,139)	\$
Borrowings under Credit Facility	319,000	
Payments under Credit Facility	(325,500)	
Notes payable proceeds	407,542	
Notes payable payments	(372,848)	
Residential Development Properties notes payable borrowings	47,193	
Residential Development Properties notes payable payments	(24,480)	
Amortization of debt premiums	(1,138)	
Obligation related to property financing transaction	79,920	
Capital distributions - joint venture partner	(3,900)	
Capital contributions - joint venture partner	1,108	
Proceeds from exercise of share options	362	
Treasury shares purchase under compensation plan	--	
Issuance of preferred shares - Series A	71,006	
Series A Preferred Share distributions	(11,981)	
Series B Preferred Share distributions	(4,038)	
Dividends and unitholder distributions	(87,831)	
Net cash provided by (used in) financing activities	\$ 88,276	\$
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (21,026)	\$
CASH AND CASH EQUIVALENTS,		
Beginning of period	78,052	
CASH AND CASH EQUIVALENTS,		
End of Period	\$ 57,026	\$

The accompanying notes are an integral part
of these consolidated financial statements.

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Crescent Real Estate Equities Company ("Crescent Equities") operates as a real estate investment trust for federal income tax purposes (a "REIT") and, together with its subsidiaries, provides management, leasing and development services for some of its properties.

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The term "Company" includes, unless the context otherwise indicates, Crescent Equities, a Texas real estate investment trust, and all of its direct and indirect subsidiaries.

The direct and indirect subsidiaries of Crescent Equities at June 30, 2004 included:

- o CRESCENT REAL ESTATE EQUITIES LIMITED PARTNERSHIP
The "Operating Partnership."
- o CRESCENT REAL ESTATE EQUITIES, LTD.
The "General Partner" of the Operating Partnership.
- o SUBSIDIARIES OF THE OPERATING PARTNERSHIP AND THE
GENERAL PARTNER

Crescent Equities conducts all of its business through the Operating Partnership and its other subsidiaries. The Company is structured to facilitate and maintain the qualification of Crescent Equities as a REIT.

The following table shows the consolidated subsidiaries of the Company that owned or had an interest in real estate assets and the real estate assets that each subsidiary owned or had an interest in as of June 30, 2004.

Operating Partnership	<p>Wholly-owned assets - The Avallon IV, Datran Center (two office properties), Houston Center (three office properties and the Houston Center Shops), and Dupont Centre. These properties are included in the Company's Office Segment.</p> <p>Non wholly-owned assets, consolidated - 301 Congress Avenue (50% interest) and Fountain Place (0.1%), included in the Company's Office Segment. Sonoma Mission Inn (80.1% interest), included in the Company's Resort/Hotel Segment.</p> <p>See Note 6, "Other Transactions," for a description of the Fountain Place Office Property transaction.</p> <p>Non wholly-owned assets, unconsolidated - Bank One Center (50% interest), Bank One Tower (20% interest), Three Westlake Park (20% interest), Four Westlake Park (20% interest), Miami Center (40% interest), 5 Houston Center (25% interest), BriarLake Plaza (30% interest) and Five Post Oak Park (30% interest). These properties are included in the Company's Office Segment. Temperature-Controlled Logistics Properties (40% interest in 87 properties), included in the Company's Temperature-Controlled Logistics Segment.</p>
Hughes Center Entities(1)	<p>Wholly-owned assets - Hughes Center Properties (seven office properties each in a separate limited liability company).</p>

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These properties are included in the Company's Office Segment.

Non wholly-owned asset, consolidated - 3770 Hughes Parkway (67% interest), included in the Company's Office Segment.

Crescent Real Estate Funding I, L.P. ("Funding I")

Wholly-owned assets - The Aberdeen, The Avallon I, II & III, Carter Burgess Plaza, The Citadel, The Crescent Atrium, The Crescent Office Towers, Regency Plaza One, Waterside Commons and 125 E. John Carpenter Freeway. These properties are included in the Company's Office Segment.

Crescent Real Estate Funding III, IV and V, L.P. ("Funding III, IV and V") (2)

Wholly-owned assets - Greenway Plaza Office Properties (ten Office Properties). These properties are included in the Company's Office Segment. Renaissance Houston Hotel is included in the Company's Resort/Hotel Segment.

Crescent Real Estate Funding VI, L.P. ("Funding VI")

Wholly-owned asset - Canyon Ranch - Lenox, included in the Company's Resort/Hotel Segment.

Crescent Real Estate Funding VIII, L.P. ("Funding VIII")

Wholly-owned assets - The Addison, Austin Centre, The Avallon V, Chancellor Park, 816 Congress, Greenway I & IA (two office properties), Greenway II, Johns Manville Plaza, Palisades Central I, Palisades Central II, Stemmons Place, Trammell Crow Center(3), 3333 Lee Parkway, 5050 Quorum, 44 Cook and 55 Madison. These properties are included in the Company's Office Segment. The Canyon Ranch - Tucson, Omni Austin Hotel, and Ventana Inn & Spa, all of which are included in the Company's Resort/Hotel Segment.

Crescent Real Estate Funding X, L.P. ("Funding X")

Wholly-owned assets - Post Oak Central (three Office Properties). These properties are included in the Company's Office Segment.

7

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Crescent Real Estate Funding XII, L.P. ("Funding XII")

Wholly-owned assets - 12404 Park Central, Albuquerque Plaza, Barton Oaks Plaza, Briargate Office and Research Center, MacArthur Center I & II, Stanford Corporate Center, and Two Renaissance Square. These properties are included in the Company's Office Segment. The Hyatt Regency Albuquerque and the Park Hyatt Beaver Creek Resort & Spa. These properties are

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	included in the Company's Resort/Hotel Segment.
Crescent 707 17th Street, L.L.C	Wholly-owned assets - 707 17th Street, included in the Company's Office Segment, and The Denver Marriott City Center, included in the Company's Resort/Hotel Segment.
Crescent Spectrum Center, L.P.	Non wholly-owned asset, consolidated - Spectrum Center (approximately 100% interest), included in the Company's Office Segment.
Crescent Colonnade, L.L.C.	Wholly-owned asset - The BAC-Colonnade Building, included in the Company's Office Segment.
Mira Vista Development Corp. ("MVDC")	Non wholly-owned asset, consolidated - Mira Vista (98% interest), included in the Company's Residential Development Segment.
Houston Area Development Corp. ("HADC")	Non wholly-owned assets, consolidated - Falcon Point (98% interest), Falcon Landing (98% interest) and Spring Lakes (98% interest). These properties are included in the Company's Residential Development Segment.
Desert Mountain Development Corporation ("DMDC")	Non wholly-owned assets, consolidated - Desert Mountain (93% interest), included in the Company's Residential Development Segment.
Crescent Resort Development Inc. ("CRDI")	Non wholly-owned assets, consolidated - Brownstones (64% interest), Creekside at Riverfront (64% interest), Cresta (60% interest), Delgany (64% interest), Eagle Ranch (60% interest), Gray's Crossing (71% interest), Horizon Pass Lodge (64% interest), Horizon Pass Townhomes (64% interest), Hummingbird (64% interest), Main Street Station (30% interest), Northstar (57% interest), Old Greenwood (71% interest), Park Place at Riverfront (64% interest), Park Tower at Riverfront (64% interest), Riverbend (60% interest), Riverfront Park (64% interest). These properties are included in the Company's Residential Development Segment.
	Non wholly-owned assets, unconsolidated - Blue River Land Company, L.L.C. - Three Peaks (30% interest) and EW Deer Valley, L.L.C. (42% interest), included in the Company's Residential Development Segment.
Crescent TRS Holdings Corp.	Non wholly-owned assets, unconsolidated - two quarries (56% interest). These properties are included in the Company's Temperature-Controlled Logistics Segment.

-
- (1) In addition, the Company owns nine retail parcels located in Hughes Center.
 - (2) Funding III owns nine of the ten office properties in the Greenway Plaza office portfolio and the Renaissance Houston Hotel; Funding IV owns the central heated and chilled water plant building located at Greenway Plaza; and Funding V owns 9 Greenway, the remaining office property in the Greenway Plaza office portfolio.
 - (3) The Company owns the economic interest in Trammell Crow Center through its ownership of fee simple title to the Property (subject to a ground lease and a leasehold estate regarding the building) and two mortgage notes encumbering the leasehold interests in the land and the building.

See Note 8, "Investments in Unconsolidated Companies," for a table that lists the Company's ownership in significant unconsolidated joint ventures and investments as of June 30, 2004.

See Note 9, "Notes Payable and Borrowings Under Credit Facility," for a list of certain other subsidiaries of the Company, all of which are consolidated in the Company's financial statements and were formed primarily for the purpose of obtaining secured debt or joint venture financing.

SEGMENTS

The assets and operations of the Company were divided into four investment segments at June 30, 2004, as follows:

- o Office Segment;
- o Resort/Hotel Segment;
- o Residential Development Segment; and
- o Temperature-Controlled Logistics Segment.

Within these segments, the Company owned in whole or in part the following real estate assets (the "Properties") as of June 30, 2004:

- o OFFICE SEGMENT consisted of 75 office properties (collectively referred to as the "Office Properties"), located in 28 metropolitan submarkets in seven states, with an aggregate of approximately 30.0 million net rentable square feet. Sixty-five of the Office Properties are wholly-owned and ten are owned through joint ventures, two of which are consolidated and eight of which are unconsolidated.

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- o RESORT/HOTEL SEGMENT consisted of five luxury and destination fitness resorts and spas with a total of 1,036 rooms/guest nights and four upscale business-class hotel properties with a total of 1,771 rooms (collectively referred to as the "Resort/Hotel Properties"). Eight of the Resort/Hotel Properties are wholly-owned and one is owned through a joint venture that is consolidated.

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- o RESIDENTIAL DEVELOPMENT SEGMENT consisted of the Company's ownership of common stock representing interests of 98% to 100% in four residential development corporations (collectively referred to as the "Residential Development Corporations"), which in turn, through partnership arrangements, owned in whole or in part 28 upscale residential development properties (collectively referred to as the "Residential Development Properties").
- o TEMPERATURE-CONTROLLED LOGISTICS SEGMENT consisted of the Company's 40% interest in Vornado Crescent Portland Partnership (the "Temperature-Controlled Logistics Partnership") and a 56% non-controlling interest in the Vornado Crescent Carthage and KC Quarry L.L.C. ("VCQ"). The Temperature-Controlled Logistics Partnership owns all of the common stock, representing substantially all of the economic interest, of AmeriCold Realty Trust (the "Temperature-Controlled Logistics Corporation"), a REIT. As of June 30, 2004, the Temperature-Controlled Logistics Corporation directly or indirectly owned 87 temperature-controlled logistics properties (collectively referred to as the "Temperature-Controlled Logistics Properties") with an aggregate of approximately 440.7 million cubic feet (17.5 million square feet) of warehouse space. As of June 30, 2004, VCQ owned two quarries and the related land. The Company accounts for its interests in the Temperature-Controlled Logistics Partnership and in VCQ as unconsolidated equity entities.

See Note 3, "Segment Reporting," for a table showing selected financial information for each of these investment segments for the three and six months ended June 30, 2004 and 2003, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of these investment segments at June 30, 2004 and December 31, 2003.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three- and six- month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The condensed consolidated balance sheet at December 31, 2003 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

You should read these consolidated financial statements in conjunction with the consolidated financial statements and footnotes thereto in the Company's annual report on Form 10-K for the year ended December 31, 2003.

Certain amounts in prior period financial statements have been reclassified to conform to current period presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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This section should be read in conjunction with the more detailed information regarding the Company's significant accounting policies contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

ADOPTION OF NEW ACCOUNTING STANDARD

EITF 03-1. At the March 17-18, 2004 meeting, consensus was reached by the FASB Emerging Issues Task Force on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Consensus applies to investments in debt and equity securities within the scope of SFAS Nos. 115, "Accounting for Certain Investments in Debt and Equity Securities," and 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." It also applies to investments in equity securities that are both outside SFAS No. 115's scope and not accounted for under the equity method. The Task Force reached a consensus that certain quantitative and qualitative disclosures should be required for securities that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The new impairment guidance creates a model that calls for many judgments and

9

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

additional evidence gathering in determining whether or not securities are other-than-temporarily impaired and lists some of these impairment indicators. The impairment accounting guidance is effective for periods beginning after June 15, 2004 and the disclosure requirements for annual reporting periods are effective for periods ending after June 15, 2004. The Company adopted EITF 03-1 effective July 1, 2004 and expects no impact on the Company's financial condition or its results of operations.

SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION OF VARIABLE INTEREST ENTITIES. On January 15, 2003, the FASB approved the issuance of Interpretation 46, "Consolidation of Variable Interest Entities," ("FIN 46"), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), which amended FIN 46. Under FIN 46R, consolidation requirements are effective immediately for new Variable Interest Entities ("VIEs") created after January 31, 2003. The consolidation requirements apply to existing VIEs for financial periods ending after March 15, 2004, except for special purpose entities which had to be consolidated by December 31, 2003. VIEs are generally a legal structure used for business enterprises that either do not have equity investors with voting rights, or have equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of the new guidance is to improve reporting by addressing when a company should include in its financial statements the assets, liabilities and activities of other entities such as VIEs. FIN 46R requires VIEs to be consolidated by a company if the company is subject to a majority of the expected losses of the VIE's activities or entitled to receive a majority of the entity's expected residual returns or both.

The adoption of FIN 46R did not have a material impact to the Company's financial condition or results of operations. Due to the adoption of this Interpretation and management's assumptions in application of the guidelines stated in the Interpretation, the Company has consolidated GDW LLC, a subsidiary

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of DMDC, as of December 31, 2003 and Elijah Fulcrum Fund Partners, L.P. ("Elijah") as of January 1, 2004. Elijah is a limited partnership whose purpose is to invest in the SunTx Fulcrum Fund, L.P. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of acquisitions that offer the potential for substantial capital appreciation. While it was determined that one of the Company's unconsolidated joint ventures, Main Street Partners, L.P., and its investments in Canyon Ranch Las Vegas, L.L.C., CR License, L.L.C. and CR License II, L.L.C. ("Canyon Ranch Entities") are VIEs under FIN 46R, the Company is not the primary beneficiary and is not required to consolidate these entities under other GAAP. The Company's maximum exposure to loss is limited to its equity investment of approximately \$52.0 million in Main Street Partners, L.P. and \$5.1 million in the Canyon Ranch Entities at June 30, 2004.

In connection with the Hughes Center acquisition, the Company entered into two separate exchange agreements with a third party intermediary. The first exchange agreement includes two parcels of undeveloped land and the second exchange agreement includes the 3930 Hughes Parkway Office Property. Both agreements were for a maximum term of 180 days and allow the Company to pursue favorable tax treatment on other properties sold by the Company within this period. During the 180-day periods, which will end on August 28, 2004 and November 6, 2004, respectively, the third party intermediary is the legal owner of the properties, although the Company controls the properties, retains all of the economic benefits and risks associated with these properties and indemnifies the third party intermediary and, therefore, the Company fully consolidates these properties. The Company will take legal ownership of the properties no later than on the expiration of the 180-day period.

Further, in connection with the Hughes Center acquisition, the Company entered into an exchange agreement with a third party intermediary for six of the Office Properties and the nine retail parcels. This agreement was for a maximum term of 180 days and allowed the Company to pursue favorable tax treatment on other properties sold by the Company within this period. During the 180-day period, which ended on June 28, 2004, the third party intermediary was the legal owner of the properties, although the Company controlled the properties, retained all of the economic benefits and risks associated with these properties and indemnified the third party intermediary and, therefore, the Company fully consolidated these properties. On June 28, 2004, the Company took legal ownership of the Office Properties and the nine retail parcels.

STOCK-BASED COMPENSATION. Effective January 1, 2003, the Company adopted the fair value expense recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," on a prospective basis as permitted by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which requires that the fair value of stock options at the date of grant be amortized ratably into expense over the appropriate vesting period. During the six months ended June 30, 2004, the Company granted stock options and recognized compensation expense that was not significant to its results of operations. With respect to the Company's stock options which were granted prior to 2003, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB No. 25"). Had compensation cost

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

been determined based on the fair value at the grant dates for awards under the Plans consistent with SFAS No. 123, the Company's net loss and loss per share

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would have been reduced to the following pro forma amounts:

(in thousands, except per share amounts)	FOR THE THREE MONTHS ENDED JUNE 30,		
	2004	2003	
Net loss available to common shareholders, as reported	\$ (17,493)	\$ (6,053)	\$
Add: Stock-based employee compensation expense included in reported net income	351	3	
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest	(835)	(585)	
Pro forma net loss	\$ (17,977)	\$ (6,635)	\$
(Loss) earnings per share:			
Basic/Diluted - as reported	\$ (0.18)	\$ (0.06)	\$
Basic/Diluted - pro forma	\$ (0.18)	\$ (0.07)	\$

MARKETABLE SECURITIES. The Company has classified and recorded its marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Realized gains or losses on the sale of securities are recorded based on specific identification. When a decline in the fair value of marketable securities is determined to be other-than-temporary, the cost basis is written down to fair value and the amount of the write-down is included in earnings for the applicable period. Investments in securities with no readily determinable market value are reported at cost, as they are not considered marketable under SFAS No. 115, and total \$5.5 million at June 30, 2004 and December 31, 2003.

The following tables present the cost, fair value and unrealized gains and losses as of June 30, 2004 and December 31, 2003 and the realized gains and change in Accumulated Other Comprehensive Income ("OCI") for the six months ended June 30, 2004 and 2003 for the Company's marketable securities.

(in thousands)	AS OF JUNE 30, 2004			AS OF DECEMBER 31, 2003	
	COST	FAIR VALUE	UNREALIZED GAIN/ (LOSS)	COST	
Held to maturity(1)	\$ 187,655	\$ 185,481	\$ (2,174)	\$ 9,620	\$
Trading(2)	7,950	8,489	N/A	4,473	
Available for sale(3)	6,338	6,260	(78)	2,278	
Total	\$ 201,943	\$ 200,230	\$ (2,252)	\$ 16,371	\$

FOR THE SIX MONTHS ENDED JUNE 30, 2004	FOR THE SIX MONTHS ENDED JUNE 30, 2003
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(in thousands)

TYPE OF SECURITY	REALIZED GAIN/(LOSS)	CHANGE IN OCI	REALIZED GAIN/(LOSS)	CHANGE IN OCI
-----	-----	-----	-----	-----
Held to maturity(1)	\$ --	\$ N/A	\$ --	\$ N/A
Trading(2)	248	N/A	--	N/A
Available for sale(3)	1	(78)	(502)	514
-----	-----	-----	-----	-----
Total	\$ 249	\$ (78)	\$ (502)	\$ 514
=====	=====	=====	=====	=====

-
- (1) Held to maturity securities are carried at amortized cost and consist of \$173.9 million of U.S. Treasury and government sponsored agency securities purchased for the sole purpose of funding debt service payments on the LaSalle Note II and \$13.8 million of bonds included in "Other assets, net" in the accompanying Consolidated Balance Sheets at June 30, 2004. See Note 9, "Notes Payable and Borrowings Under Credit Facility," for additional information on the defeasance of the LaSalle Note II.
- (2) Trading securities consist of primarily marketable securities purchased in connection with the Company's dividend incentive unit program. These securities are included in "Other assets, net" in the accompanying Consolidated Balance Sheets and are marked to market value on a monthly basis with the change in fair value recognized in earnings.
- (3) Available for sale securities consist of marketable securities which the Company intends to hold for an indefinite period of time. These securities are included in "Other assets, net" in the accompanying Consolidated Balance Sheets and are marked to market value on a monthly basis with the corresponding unrealized gain or loss recorded in OCI.

In July 2004, Fresh Choice, Inc., in which the Company owns \$5.5 million Series B Preferred shares reported at cost at June 30, 2004 and December 31, 2003, filed for protection under Chapter 11 of the U.S. Bankruptcy Court in order to facilitate a reorganization and restructuring. At June 13, 2004, the accrued liquidation preference on the Series B Preferred shares was \$9.1 million. Based on the Company's evaluation of its preferred interest in Fresh Choice, the Company estimates the value of its shares at a minimum to be equal to the investment balance of \$5.5 million.

11

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EARNINGS PER SHARE. SFAS No. 128, "Earnings Per Share," ("EPS") specifies the computation, presentation and disclosure requirements for earnings per share.

Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. The Company presents both basic and diluted earnings per share.

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The following tables present reconciliations for the three and six months ended June 30, 2004 and 2003 of basic and diluted earnings per share from "Loss before discontinued operations and cumulative effect of a change in accounting principle" to "Net loss available to common shareholders." The table also includes weighted average shares on a basic and diluted basis, which for the periods presented, are the same.

FOR THE THREE MONTHS ENDED J				

2004				

(in thousands, except per share amounts)	Income (Loss)	Wtd. Avg. Shares (1)	Per Share Amount	Income (Loss)

BASIC/DILUTED EPS -				
Loss before discontinued operations and cumulative effect of a change in accounting principle	\$ (10,607)	99,022		\$ (3,0
Series A Preferred Share distributions	(5,991)			(4,5
Series B Preferred Share distributions	(2,019)			(2,0

Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	\$ (18,617)	99,022	\$ (0.19)	\$ (9,6
Income from discontinued operations, net of minority interests	3,621		0.03	4,4
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(424)		--	(8
Loss on real estate from discontinued operations, net of minority interests	(2,073)		(0.02)	(
Cumulative effect of a change in accounting principle	--			

Net loss available to common shareholders	\$ (17,493)	99,022	\$ (0.18)	\$ (6,0
=====				

(1) Anti-dilutive shares not included are 114 and 13 for the three months ended June 30, 2004 and 2003, respectively.

FOR THE SIX MONTHS ENDED JU				

2004				

(in thousands, except per share amounts)	Income (Loss)	Wtd. Avg. Shares (1)	Per Share Amount	In (L

BASIC/DILUTED EPS -				
Loss before discontinued operations and cumulative effect of a change in accounting principle	\$ (20,865)	99,007		\$

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Series A Preferred Share distributions	(11,742)			
Series B Preferred Share distributions	(4,038)			
	-----	-----	-----	-----
Loss available to common shareholders				
before discontinued operations and cumulative				
effect of a change in accounting principle	\$ (36,645)	99,007	\$ (0.38)	\$ (
Income from discontinued operations, net of				
minority interests	5,456		0.06	
Impairment charges related to real estate assets				
from discontinued operations, net of minority				
interests	(2,418)		(0.02)	(
Loss on real estate from discontinued operations,				
net of minority interests	(2,120)		(0.02)	
Cumulative effect of a change in accounting				
principle	(363)		--	
	-----	-----	-----	-----
Net loss available to common shareholders	\$ (36,090)	99,007	\$ (0.36)	\$ (
	=====	=====	=====	=====

(1) Anti-dilutive shares not included are 218 and 7 for the six months ended June 30, 2004 and 2003, respectively.

12

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTAL DISCLOSURE TO STATEMENTS OF CASH FLOWS

	FOR THE SIX JUNE

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	2004

(in thousands)	
Interest paid on debt	\$ 84,724
Interest capitalized - Resort/Hotel	210
Interest capitalized - Residential Development	7,444
Additional interest paid in conjunction with cash flow hedges	6,765

Total interest paid	\$ 99,143
	=====
Cash paid for income taxes	\$ 12,337
	=====

SUPPLEMENTAL SCHEDULE OF NON CASH ACTIVITIES:

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Conversion of Operating Partnership units to common shares with resulting reduction in minority interest and increases in common shares and additional paid-in capital	\$	--
Assumption of debt in conjunction with acquisitions of Office Properties		94,807
Non-cash compensation		616
Financed purchase/(sale) of land parcel		7,500

SUPPLEMENTAL SCHEDULE OF 2003 CONSOLIDATION OF DBL, MVDC, HADC, AND 2004 CONSOLIDATION OF ELIJAH:

Net investment in real estate	\$	--
Accounts receivable, net		(848)
Investments in unconsolidated companies		(2,478)
Notes receivable, net		4,363
Income tax asset - current and deferred, net		(274)
Other assets, net		--
Notes payable		--
Accounts payable, accrued expenses and other liabilities		--
Minority interest - consolidated real estate partnerships		(140)
Other comprehensive income, net of tax		139
Cumulative effect of a change in accounting principle		(428)

Increase in cash	\$	334
		=====

3. SEGMENT REPORTING

For purposes of segment reporting as defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company currently has four major investment segments based on property type: the Office Segment; the Resort/Hotel Segment; the Residential Development Segment; and the Temperature-Controlled Logistics Segment. Management utilizes this segment structure for making operating decisions and assessing performance.

The Company uses funds from operations ("FFO") as the measure of segment profit or loss. FFO, as used in this document, is based on the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT") and means:

- o Net Income (Loss) - determined in accordance with GAAP;
- o excluding gains (losses) from sales of depreciable operating property;
- o excluding extraordinary items (as defined by GAAP);
- o plus depreciation and amortization of real estate assets; and
- o after adjustments for unconsolidated partnerships and joint ventures.

The Company calculates FFO available to common shareholders - diluted in the same manner, except that Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders and the Company includes the effect of Operating Partnership unitholder minority interests.

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NAREIT developed FFO as a relative measure of performance of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. The Company considers FFO available to common shareholders - diluted and FFO appropriate measures of performance for an equity REIT and for its investment segments. However, FFO available to common shareholders - diluted and FFO should not be considered as alternatives to net income determined in accordance with GAAP as an indication of the Company's operating performance.

The Company's measures of FFO available to common shareholders - diluted and FFO may not be comparable to similarly titled measures of other REITs if those REITs apply the definition of FFO in a different manner than the Company.

Selected financial information related to each segment for the three and six months ended June 30, 2004 and 2003, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of the segments at June 30, 2004 and December 31, 2003, are presented below:

(in thousands)	SELECTED FINANCIAL INFORMATION:				FOR THE THREE MONTHS ENDED JUNE 30			
	OFFICE SEGMENT (1)	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT (2)	TEMPERATURE CONTROLLED LOGISTICS SEGMENT				
Total Property revenue	\$ 131,752	\$ 40,253	\$ 55,591	\$ -				
Total Property expense	60,373	35,833	51,761	-				
Income from Property Operations	\$ 71,379	\$ 4,420	\$ 3,830	\$ -				
Total other income (expense)	(31,401)	(5,286)	(4,434)	(2,700)				
Minority interests and income taxes	(286)	2,948	3,601	-				
Discontinued operations -income, loss on real estate and impairment charges related to real estate assets	(1,647)	2,901	8	-				
Net income (loss)	\$ 38,045	\$ 4,983	\$ 3,005	\$ (2,700)				
Depreciation and amortization of real estate assets	\$ 31,840	\$ 5,008	\$ 1,534	\$ -				
(Gain) loss on property sales, net	2,444	--	--	--				
Impairment charges related to real estate assets	500	--	--	--				
Adjustments for investment in unconsolidated companies	2,497	--	629	5,780				
Unitholder minority interest	--	--	--	--				
Series A Preferred share distributions	--	--	--	--				
Series B Preferred share distributions	--	--	--	--				
Adjustments to reconcile net income (loss) to funds from operations - diluted	\$ 37,281	\$ 5,008	\$ 2,163	\$ 5,780				

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Funds from operations available to common shareholders before impairment charges related to real estate assets - diluted	\$ 75,326	\$ 9,991	\$ 5,168	\$ 3,07
Impairment charges related to real estate assets	(500)	--	--	--
Funds from operations available to common shareholders after impairment charges related to real estate assets - diluted	\$ 74,826	\$ 9,991	\$ 5,168	\$ 3,07

See footnotes to the following table.

14

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL INFORMATION: (in thousands)	FOR THE THREE MONTHS ENDED JUNE 30			
	OFFICE SEGMENT (1)	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT (2)	TEMPERAT CONTROL LOGIST SEGME
Total Property revenue	\$ 118,761	\$ 39,291	\$ 61,973	\$
Total Property expense	58,543	33,361	55,572	
Income from Property Operations	\$ 60,218	\$ 5,930	\$ 6,401	\$
Total other income (expense)	(22,826)	(3,281)	(992)	
Minority interests and income taxes	(117)	1,901	(469)	
Discontinued operations -income, loss on real estate and impairment charges related to real estate assets	3,733	1,645	(31)	
Net income (loss)	\$ 41,008	\$ 6,195	\$ 4,909	\$
Depreciation and amortization of real estate assets	\$ 25,985	\$ 5,806	\$ 1,308	\$
(Gain) loss on property sales, net	(34)	--	--	
Impairment charges related to real estate assets	--	--	--	
Adjustments for investment in unconsolidated companies	2,596	355	(512)	
Unitholder minority interest	--	--	--	
Series A Preferred share distributions	--	--	--	
Series B Preferred share distributions	--	--	--	

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Adjustments to reconcile net income (loss) to funds from operations - diluted	\$ 28,547	\$ 6,161	\$ 796	\$
Funds from operations available to common shareholders before impairment charges related to real estate assets - diluted	\$ 69,555	\$ 12,356	\$ 5,705	\$
Impairment charges related to real estate assets	--	--	--	
Funds from operations available to common shareholders after impairment charges related to real estate assets - diluted	\$ 69,555	\$ 12,356	\$ 5,705	\$
	=====	=====	=====	=====

See footnotes to the following table.

SELECTED FINANCIAL INFORMATION: (in thousands)	FOR THE SIX MONTHS ENDED JUNE 30,			
	OFFICE SEGMENT (1)	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT (2)	TEMPERATURE CONTROL LOGISTICS SEGMENT
Total Property revenue	\$ 254,370	\$ 90,255	\$ 103,279	\$
Total Property expense	119,194	75,903	92,323	
Income from Property Operations	135,176	\$ 14,352	\$ 10,956	\$
Total other income (expense)	(60,459)	(10,745)	(7,485)	(3)
Minority interests and income taxes	(719)	4,078	4,838	
Discontinued operations -income, loss on real estate and impairment charges related to real estate assets	(2,733)	3,968	47	
Cumulative effect of a change in accounting principle	--	--	--	
Net income (loss)	\$ 71,265	\$ 11,653	\$ 8,356	\$ (3)
Depreciation and amortization of real estate assets	\$ 62,121	\$ 11,368	\$ 2,934	
(Gain) loss on property sales, net	2,156	--	--	
Impairment charges related to real estate assets	2,851	--	--	
Adjustments for investment in unconsolidated companies	4,905	--	52	11
Unitholder minority interest	--	--	--	
Series A Preferred share distributions	--	--	--	
Series B Preferred share distributions	--	--	--	

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Adjustments to reconcile net income (loss) to funds from operations available to common shareholders - diluted	\$ 72,033	\$ 11,368	\$ 2,986	\$ 11,368
Funds from operations available to common shareholders before impairment charges related to real estate assets - diluted	\$ 143,298	\$ 23,021	\$ 11,342	\$ 7,000
Impairment charges related to real estate assets	(2,851)	--	--	--
Funds from operations available to common shareholders after impairment charges related to real estate assets - diluted	\$ 140,447	\$ 23,021	\$ 11,342	\$ 7,000

See footnotes to the following table.

15

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SELECTED FINANCIAL INFORMATION:	FOR THE SIX MONTHS ENDED JUNE 30,			
(in thousands)	OFFICE SEGMENT (1)	RESORT/HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT (2)	TEMPERATURE CONTROLLED LOGISTICS SEGMENT
Total Property revenue	\$ 239,608	\$ 90,554	\$ 105,694	\$ 1,000
Total Property expense	116,389	73,308	97,002	1,000
Income from Property Operations	\$ 123,219	\$ 17,246	\$ 8,692	\$ 1,000
Total other income (expense)	(48,679)	(7,187)	(2,665)	1,000
Minority interests and income taxes	(274)	2,538	2,324	1,000
Discontinued operations -income, loss on real estate and impairment charges related to real estate assets	(8,697)	3,059	(11)	1,000
Net income (loss)	\$ 65,569	\$ 15,656	\$ 8,340	\$ 1,000
Depreciation and amortization of real estate assets	55,392	11,582	2,426	1,000
(Gain) loss on property sales, net	(98)	--	--	1,000

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Impairment charges related to real estate assets	15,000	--	--	
Adjustments for investment in unconsolidated companies	5,418	749	227	10,
Unitholder minority interest	--	--	--	
Series A Preferred share distributions	--	--	--	
Series B Preferred share distributions	--	--	--	
	-----	-----	-----	-----
Adjustments to reconcile net income (loss) to funds from operations - diluted	\$ 75,712	\$ 12,331	\$ 2,653	\$ 10,
	-----	-----	-----	-----
Funds from operations available to common shareholders before impairment charges related to real estate assets - diluted	\$ 141,281	\$ 27,987	\$ 10,993	\$ 12,
Impairment charges related to real estate assets	(15,000)	--	--	
	-----	-----	-----	-----
Funds from operations available to common shareholders after impairment charges related to real estate assets - diluted	\$ 126,281	\$ 27,987	\$ 10,993	\$ 12,
	-----	-----	-----	-----

See footnotes to the following table.

(IN MILLIONS)	OFFICE SEGMENT	RESORT/ HOTEL SEGMENT	RESIDENTIAL DEVELOPMENT SEGMENT (2) (4)	TEMPERA CONTROL LOGISTI SEGMENT
	-----	-----	-----	-----
TOTAL ASSETS BY SEGMENT: (5) (6)				
Balance at June 30, 2004	2,619	495	798	
Balance at December 31, 2003	2,503	468	707	
CONSOLIDATED PROPERTY LEVEL FINANCING:				
Balance at June 30, 2004	(1,374)	(135)	(111)	
Balance at December 31, 2003	(1,459)	(138)	(88)	
CONSOLIDATED OTHER LIABILITIES:				
Balance at June 30, 2004	(172)	(45)	(162)	
Balance at December 31, 2003	(120)	(27)	(109)	
MINORITY INTERESTS:				
Balance at June 30, 2004	(9)	(6)	(29)	
Balance at December 31, 2003	(9)	(7)	(31)	

(1) The property revenue includes lease termination fees (net of the write-off of deferred rent receivables) of approximately \$5.9 million and \$0.9 million for the three months ended June 30, 2004 and 2003, respectively and \$7.2 million and \$2.9 million for the six months ended June 30, 2004 and 2003, respectively.

(2) The Company sold its interest in The Woodlands Land Development

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Company, L.P. on December 31, 2003.

- (3) For purposes of this Note, Corporate and Other includes the total of: interest and other income, corporate general and administrative expense, interest expense, amortization of deferred financing costs, extinguishment of debt, other expenses, and equity in net income of unconsolidated companies-other.
- (4) The Company's net book value for the Residential Development Segment includes total assets, consolidated property level financing, consolidated other liabilities and minority interest totaling \$496 million at June 30, 2004. The primary components of net book value are \$332 million for CRDI, consisting of Tahoe Mountain Resort properties of \$192 million, Denver development properties of \$61 million and Colorado Mountain development properties of \$79 million, \$132 million for Desert Mountain and \$32 million for other land development properties.
- (5) Total assets by segment are inclusive of investments in unconsolidated companies.
- (6) Non-income producing land held for investment or development of \$82.5 million by segment is as follows: Corporate \$79.0 million and Resort/Hotel \$3.5 million.
- (7) Includes U.S. Treasury and government sponsored agency securities of \$173.9 million.
- (8) Inclusive of Corporate bonds, credit facility, the \$75 million Fleet Term Loan and Funding II defeased debt.

16

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ASSET ACQUISITIONS

OFFICE PROPERTIES

During January and February 2004, in accordance with the original purchase contract, the Company acquired an additional five Class A Office Properties and seven retail parcels located within Hughes Center in Las Vegas, Nevada from the Rouse Company. One of these Office Properties is owned through a joint venture in which the Company acquired a 67% interest. The remaining four Office Properties are wholly-owned by the Company. The Company acquired these five Office Properties and seven retail parcels for approximately \$175.3 million, funded by the Company's assumption of approximately \$85.4 million in mortgage loans and by a portion of the proceeds from the sale of the Company's interests in The Woodlands on December 31, 2003. The Company recorded the loans assumed at their fair value of approximately \$93.2 million, which includes \$7.8 million of premium. The five Office Properties are included in the Company's Office Segment.

On March 31, 2004, the Company acquired Dupont Centre, a 250,000 square foot Class A office property, located in the John Wayne Airport submarket of Irvine, California. The Company acquired the Office Property for approximately \$54.3 million, funded by a draw on the Company's credit facility and subsequently placed a \$35.5 million non-recourse first mortgage loan on the

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property. This Office Property is wholly-owned and included in the Company's Office Segment.

On May 10, 2004, the Company completed the purchase of the remaining Hughes Center Office Property in Las Vegas, Nevada for approximately \$18.3 million. The purchase was funded by a draw on the Company's credit facility. This Office Property is wholly-owned and included in the Company's Office Segment.

UNDEVELOPED LAND

On March 1, 2004, in accordance with the agreement to acquire the Hughes Center Properties, the Company completed the purchase of two tracts of undeveloped land in Hughes Center from the Rouse Company for \$10.0 million. The purchase was funded by a \$7.5 million loan from the Rouse Company and a draw on the Company's credit facility.

5. DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the results of operations of the assets sold or held for sale have been presented as "Income from discontinued operations, net of minority interests," gain or loss on the assets sold or held for sale have been presented as "Loss on real estate from discontinued operations, net of minority interests" and impairments on the assets sold or held for sale have been presented as "Impairment charges related to real estate assets from discontinued operations, net of minority interests" in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2004 and 2003. The carrying value of the assets held for sale has been reflected as "Properties held for disposition, net" in the accompanying Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003.

ASSETS SOLD

On March 23, 2004, the Company completed the sale of the 1800 West Loop South Office Property in Houston, Texas. The sale generated proceeds, net of selling costs, of approximately \$28.2 million and a net gain of approximately \$0.2 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$13.9 million, net of minority interests, during the year ended December 31, 2003. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned.

On March 31, 2004, the Company sold its last remaining behavioral healthcare property. The sale generated proceeds, net of selling costs, of approximately \$2.0 million and a net loss of approximately \$0.3 million, net of minority interests. This property was wholly-owned.

On April 13, 2004, the Company completed the sale of the Liberty Plaza Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$10.8 million and a net loss of approximately \$0.2 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$3.6 million, net of minority interests, during the year ended December 31, 2003. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned.

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CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On June 17, 2004, the Company completed the sale of the Ptarmigan Place Office Property in Denver, Colorado. The sale generated proceeds, net of selling costs, of approximately \$25.3 million and a net loss of approximately \$2.0 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$0.5 million, net of minority interests, during the quarter ended March 31, 2004. In addition, the Company completed the sale of approximately 3.0 acres of undeveloped land adjacent to Ptarmigan Place. The sale generated proceeds, net of selling costs, of approximately \$2.9 million and a net gain of approximately \$0.9 million. The proceeds from these sales were used to pay down a portion of the Company's Bank of America Fund XII Term Loan. The property and adjacent land were wholly-owned.

On June 29, 2004, the Company completed the sale of the Addison Tower Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$8.8 million and a net gain of approximately \$0.2 million, net of minority interests. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned.

ASSETS HELD FOR SALE

The following Properties are classified as held for sale as of June 30, 2004.

PROPERTY	LOCATION
-----	-----
12404 Park Central(1)	Dallas, Texas
5050 Quorum(1)	Dallas, Texas
Albuquerque Plaza(2)	Albuquerque, New Mexico
Hyatt Regency Albuquerque(2)	Albuquerque, New Mexico
Denver Marriot City Center	Denver, Colorado

- (1) This property was sold in July 2004.
- (2) The Company has entered into a contract to sell this property. The sale is expected to close in the third quarter of 2004.

OFFICE SEGMENT

As of June 30, 2004, the Company determined that 3333 Lee Parkway, in the Uptown/Turtle Creek submarket in Dallas, Texas was no longer held for sale due to the Property no longer being actively marketed for sale due to changes in market conditions. The Property has been reclassified from "Properties held for disposition, net" to "Land," "Building and improvements, net of accumulated depreciation," and "Other assets, net" in the accompanying Consolidated Balance Sheets with a net book value of \$14.3 million at June 30, 2004. In addition, approximately \$0.1 million has been reclassified from "Income from discontinued operations, net of minority interests," to "Office Property revenue," "Office Property real estate taxes," "Office Property operating expenses" and "Depreciation and amortization" in the accompanying Consolidated Statements of Operations for the six months ended June 30, 2004.

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SUMMARY OF ASSETS HELD FOR SALE

The following table indicates the major asset classes of the properties held for sale.

(in thousands)	JUNE 30, 2004 (1)	DECEMBER 31, 2003 (2)
Land	\$ 3,328	\$ 13,924
Buildings and improvements	156,099	241,363
Furniture, fixtures and equipment	19,519	18,822
Accumulated depreciation	(43,150)	(60,321)
Other assets, net	2,537	5,998
Net investment in real estate	\$ 138,333	\$ 219,786

- (1) Includes three Office Properties, two Resort/Hotel Properties and other assets.
- (2) Includes seven Office Properties, two Resort/Hotel Properties, one behavioral healthcare property and other assets.

18

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables present total revenues, operating and other expenses, depreciation and amortization, unitholder minority interests, impairments of real estate assets and realized loss on sale of properties for the six months ended June 30, 2004 and 2003, for properties included in discontinued operations.

	FOR THE SIX MONTHS EN JUNE 30,	
(in thousands)	2004	
Total revenues	\$ 32,526	\$
Operating and other expenses	(23,884)	
Depreciation and amortization	(2,209)	
Unitholder minority interests	(977)	
Income from discontinued operations, net of minority interests	\$ 5,456	\$

FOR THE SIX MONTHS EN

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	JUNE 30,	

(in thousands)	2004	

Impairment charges related to real estate assets	\$	(2,851)
Unitholder minority interests		433

Impairment charges related to real estate assets from discontinued operations, net of minority interests	\$	(2,418)
	=====	

	FOR THE SIX MONTHS EN	
	JUNE 30,	

(in thousands)	2004	

Realized loss on sale of properties	\$	(2,500)
Unitholder minority interests		380

Loss on sale of real estate from discontinued operations, net of minority interests	\$	(2,120)
	=====	

6. OTHER TRANSACTIONS

On June 28, 2004, the Company completed a transaction related to the Fountain Place Office Property with Crescent FP Investors, L.P., ("FP Investors"), a limited partnership that is owned 99.9% by LB FP L.L.C., an affiliate of Lehman Brothers Holding, Inc., (the affiliate is referred to as "Lehman"), and 0.1% by the Company. In the transaction, the Fountain Place Office Property was, for tax purposes, sold to FP Investors for \$168.2 million, including the assumption by FP Investors of a new \$90.0 million loan from Lehman Capital. The Company received net proceeds of approximately \$78.2 million. This transaction resulted in the completion of a reverse Section 1031 like-kind exchange associated with the Company's prior purchase of a portion of the Hughes Center office portfolio.

Included in the terms of this transaction is a provision which provides Lehman the unconditional right to require the Company to purchase Lehman's interest in FP Investors for an agreed upon fair value of \$79.9 million at any time until November 30, 2004. For GAAP purposes, under SFAS No. 66, "Accounting for Sales of Real Estate," this unconditional right, or contingency, results in the transaction requiring accounting associated with a financing transaction. As a result, no gain has been recorded on the transaction and the Company's accompanying financial statements continue to include the Office Property, related debt and operations until expiration of the contingency. The fair value of the contingency, \$79.9 million, is included in the "Accounts payable, accrued expenses and other liabilities" line item in the Company's Consolidated Balance Sheet at June 30, 2004.

Also on June 28, 2004, the Company paid off the \$220.0 million Deutsche Bank - CMBS loan with proceeds from the Fountain Place Office Property transaction and a draw on the Company's revolving credit facility. See Note 9, "Notes Payable and Borrowings Under Credit Facility," for further information relating to the \$90.0 million loan with Lehman Capital, secured by the Fountain Place Office Property.

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

TEMPERATURE-CONTROLLED LOGISTICS PROPERTIES

AmeriCold Logistics, a limited liability company owned 60% by Vornado Operating L.P. and 40% by a subsidiary of Crescent Operating, Inc. ("COPI"), as sole lessee of the Temperature-Controlled Logistics Properties, leases the Temperature-Controlled Logistics Properties from the Temperature-Controlled Logistics Corporation under three triple-net master leases, as amended. The Company has no interest in COPI or AmeriCold Logistics. On March 2, 2004, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics amended the leases to further extend the deferred rent period to December 31, 2005, from December 31, 2004. The parties previously extended the deferred rent period to December 31, 2004 from December 31, 2003, on March 7, 2003.

Under terms of the leases, AmeriCold Logistics elected to defer \$26.9 million of the total \$78.9 million of rent payable for the six months ended June 30, 2004. The Company's share of the deferred rent was \$10.8 million. The Company recognizes rental income from the Temperature-Controlled Logistics Properties when earned and collected and has not recognized the \$10.8 million of deferred rent in equity in net income of the Temperature-Controlled Logistics Properties for the six months ended June 30, 2004. As of June 30, 2004, the Temperature-Controlled Logistics Corporation's deferred rent and valuation allowance from AmeriCold Logistics were \$109.3 million and \$101.2 million, respectively, of which the Company's portions were \$43.7 million and \$40.5 million, respectively.

As a result of the continuing inability of AmeriCold Logistics to pay the full amount of the rent due under the leases without deferral elections, the Company anticipates that the Temperature-Controlled Logistics Corporation may restructure the leases in 2004, although it is under no obligation to do so.

On February 5, 2004, the Temperature-Controlled Logistics Corporation completed a \$254.4 million mortgage financing with Morgan Stanley Mortgage Capital Inc., secured by 21 of its owned and seven of its leased temperature-controlled logistics properties. The loan matures in April 2009, bears interest at LIBOR plus 295 basis points (with a LIBOR floor of 1.5% with respect to \$54.4 million of the loan) and requires principal payments of \$5.0 million annually. The net proceeds to the Temperature-Controlled Logistics Corporation were approximately \$225.0 million, after closing costs and the repayment of approximately \$12.9 million in existing mortgages. On February 6, 2004, the Temperature-Controlled Logistics Corporation distributed cash of approximately \$90.0 million to the Company.

For information regarding the planned sale of COPI's interest in AmeriCold Logistics, see Note 16, "COPI."

VORNADO CRESCENT CARTHAGE AND KC QUARRY, L.L.C.

On January 20, 2004, VCQ purchased \$6.1 million of trade receivables from AmeriCold Logistics at a 2% discount. VCQ used cash from a \$6.0 million contribution from its owners, of which approximately \$2.4 million represented the Company's contribution for the purchase of the trade receivables. The receivables were collected during the first quarter of 2004. On March 29, 2004, VCQ purchased an additional \$4.1 million of receivables from AmeriCold Logistics at a 2% discount. VCQ used cash from collection of the trade receivables

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previously purchased. The remaining \$2.0 million was distributed to its owners, of which \$0.8 million was received by the Company on April 1, 2004. On July 2, 2004, VCQ purchased an additional \$6.0 million of receivables from AmeriCold Logistics at a 2% discount. VCQ used cash from collection of the trade receivables previously purchased.

20

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. INVESTMENTS IN UNCONSOLIDATED COMPANIES

The following is a summary of the Company's ownership in significant unconsolidated joint ventures and investments as of June 30, 2004.

ENTITY	CLASSIFICATION
Main Street Partners, L.P.	Office (Bank One Center-Dallas)
Crescent Miami Center, L.L.C.	Office (Miami Center - Miami)
Crescent Five Post Oak Park L.P.	Office (Five Post Oak - Houston)
Crescent One BriarLake Plaza, L.P.	Office (BriarLake Plaza - Houston)
Crescent 5 Houston Center, L.P.	Office (5 Houston Center-Houston)
Austin PT BK One Tower Office Limited Partnership	Office (Bank One Tower-Austin)
Houston PT Three Westlake Office Limited Partnership	Office (Three Westlake Park -Houston)
Houston PT Four Westlake Office Limited Partnership	Office (Four Westlake Park-Houston)
Vornado Crescent Carthage and KC Quarry, L.L.C.	Temperature-Controlled Logistics
Vornado Crescent Portland Partnership	Temperature-Controlled Logistics
Blue River Land Company, L.L.C.	Other
Canyon Ranch Las Vegas, L.L.C.	Other
EW Deer Valley, L.L.C.	Other
CR License, L.L.C.	Other
CR License II, L.L.C.	Other
SunTx Fulcrum Fund, L.P.	Other
SunTx Capital Partners, L.P.	Other
G2 Opportunity Fund, L.P. ("G2")	Other

- (1) The remaining 50% interest in Main Street Partners, L.P. is owned by Trizec Properties, Inc.
- (2) The remaining 60% interest in Crescent Miami Center, L.L.C. is owned by an affiliate of a fund managed by JP Morgan Fleming Asset Management, Inc.
- (3) The remaining 70% interest in Crescent Five Post Oak Park, L.P. is owned by an affiliate of General Electric Pension Fund Trust.
- (4) The remaining 70% interest in Crescent One BriarLake Plaza, L.P. is owned by affiliates of JP Morgan Fleming Asset Management, Inc.
- (5) The remaining 75% interest in Crescent 5 Houston Center, L.P. is owned

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by a pension fund advised by JP Morgan Fleming Asset Management, Inc.

- (6) The remaining 80% interest in each of Austin PT BK One Tower Office Limited Partnership, Houston PT Three Westlake Office Limited Partnership and Houston PT Four Westlake Office Limited Partnership is owned by an affiliate of General Electric Pension Fund Trust.
- (7) The remaining 44% in Vornado Crescent Carthage and KC Quarry, L.L.C. is owned by Vornado Realty Trust, L.P.
- (8) The remaining 60% interest in Vornado Crescent Portland Partnership is owned by Vornado Realty Trust, L.P.
- (9) The remaining 50% interest in Blue River Land Company, L.L.C. is owned by parties unrelated to the Company. Blue River Land Company, L.L.C. was formed to acquire, develop and sell certain real estate property in Summit County, Colorado.
- (10) Of the remaining 50% interest in Canyon Ranch Las Vegas, L.L.C., 35% is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties and 15% is owned by the Company through its investment in CR License II, L.L.C. Canyon Ranch Las Vegas, L.L.C. operates a Canyon Ranch spa in a hotel in Las Vegas.
- (11) The remaining 58.3% interest in EW Deer Valley, L.L.C. is owned by parties unrelated to the Company. EW Deer Valley, L.L.C. was formed to acquire, hold and dispose of its 3.3% ownership interest in Empire Mountain Village, L.L.C. Empire Mountain Village, L.L.C. was formed to acquire, develop and sell certain real estate property at Deer Valley Ski Resort next to Park City, Utah.
- (12) The remaining 70% interest in CR License, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties. CR License, L.L.C. owns the licensing agreement related to certain Canyon Ranch trade names and trademarks.
- (13) The remaining 70% interest in CR License II, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties. CR License II, L.L.C. and its wholly-owned subsidiaries provide management and development consulting services to a variety of entities in the hospitality, real estate, and health and wellness industries.
- (14) Of the remaining 76.5% of SunTx Fulcrum Fund, L.P., 37.1% is owned by SunTx Capital Partners, L.P. and the remaining 39.4% is owned by a group of individuals unrelated to the Company. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of acquisitions that offer the potential for substantial capital appreciation.
- (15) SunTx Capital Partners, L.P. is the general Partner of the SunTx Fulcrum Fund, L.P. The remaining 85.6% interest in SunTx Capital Partners, L.P. is owned by parties unrelated to the Company.
- (16) G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments. The remaining 87.5% interest in G2 is owned by Goff-Moore Strategic Partners, L.P. ("GMSPLP") and by parties unrelated to the Company. G2 is managed and controlled by an entity that is owned equally by GMSPLP and GMAC Commercial Mortgage Corporation ("GMACCM"). The ownership structure of GMSPLP consists of an approximately 86% limited partnership interest owned directly and indirectly by Richard E. Rainwater, Chairman of the Board of Trust Managers of the Company, and

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an approximately 14% general partnership interest, of which approximately 6% is owned by Darla Moore, who is married to Mr. Rainwater, and approximately 6% is owned by John C. Goff, Vice-Chairman of the Company's Board of Trust Managers and Chief Executive Officer of the Company. The remaining approximately 2% general partnership interest is owned by unrelated parties.

21

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY FINANCIAL INFORMATION

The Company reports its share of income and losses based on its ownership interest in its respective equity investments, adjusted for any preference payments. The unconsolidated entities that are included under the headings on the following tables are summarized below.

Balance Sheets as of June 30, 2004:

- o Office - This includes Main Street Partners, L.P., Houston PT Three Westlake Office Limited Partnership, Houston PT Four Westlake Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center, L.L.C., Crescent Five Post Oak Park L.P. and Crescent One BriarLake Plaza, L.P.;
- o Temperature-Controlled Logistics - This includes the Temperature-Controlled Logistics Partnership and VCQ; and
- o Other - This includes Blue River Land Company, L.L.C., EW Deer Valley, L.L.C., CR License, L.L.C., CR License II, L.L.C., Canyon Ranch Las Vegas, L.L.C., SunTx Fulcrum Fund, L.P., SunTx Capital Partners, L.P. and G2.

Balance Sheets as of December 31, 2003:

- o Office - This includes Main Street Partners, L.P., Houston PT Three Westlake Office Limited Partnership, Houston PT Four Westlake Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center, L.L.C., Crescent Five Post Oak Park L.P. and Crescent One BriarLake Plaza, L.P.;
- o Temperature-Controlled Logistics - This includes the Temperature-Controlled Logistics Partnership and VCQ; and
- o Other - This includes Blue River Land Company, L.L.C., EW Deer Valley, L.L.C., CR License, L.L.C., CR License II, L.L.C., Canyon Ranch Las Vegas, L.L.C., SunTx Fulcrum Fund, L.P. and G2.

Summary Statements of Operations for the six months ended June 30, 2004:

- o Office - This includes Main Street Partners, L.P., Houston PT Three Westlake Office Limited Partnership, Houston PT Four Westlake Office Limited Partnership, Austin PT BK One Tower

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Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center, L.L.C., Crescent Five Post Oak Park L.P. and Crescent One BriarLake Plaza, L.P.;

- o Temperature-Controlled Logistics - This includes the Temperature-Controlled Logistics Partnership and VCQ; and
- o Other - This includes Blue River Land Company, L.L.C., EW Deer Valley, L.L.C., CR License, L.L.C., CR License II, L.L.C., Canyon Ranch Las Vegas, L.L.C., SunTx Fulcrum Fund, L.P., SunTx Capital Partners, L.P. and G2.

Summary Statements of Operations for the six months ended June 30, 2003:

- o Office - This includes Main Street Partners, L.P., Houston PT Three Westlake Office Limited Partnership, Houston PT Four Westlake Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent 5 Houston Center, L.P., Crescent Miami Center, L.L.C, Crescent Five Post Oak Park L.P. and Woodlands CPC;
- o Temperature-Controlled Logistics - This includes the Temperature-Controlled Logistics Partnership and VCQ;
- o The Woodlands Land Development Company, L.P.; and
- o Other - This includes Manalapan Hotel Partners, L.L.C., Blue River Land Company, L.L.C., CR License, L.L.C., CR License II, L.L.C., the Woodlands Operating Company and Canyon Ranch Las Vegas, L.L.C., SunTx Fulcrum Fund, L.P. and G2.

22

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS:

	AS OF JUNE 30, 2004			
(in thousands)	OFFICE	TEMPERATURE- CONTROLLED LOGISTICS	OTHER	TOTAL
Real estate, net	\$ 746,581	\$ 1,159,563		
Cash	27,015	19,626		
Other assets	61,906	105,269		
Total assets	\$ 835,502	\$ 1,284,458		
Notes payable	\$ 513,245	\$ 778,108		
Notes payable to the Company	--	--		
Other liabilities	32,029	7,506		
Equity	290,228	498,844		

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Total liabilities and equity	\$ 835,502	\$ 1,284,458		
Company's share of unconsolidated debt	\$ 171,654	\$ 311,243	\$ 1,545	\$ 484,442
Company's investments in unconsolidated companies	\$ 97,442	\$ 207,073	\$ 42,122	\$ 346,637

BALANCE SHEETS:

AS OF DECEMBER 31, 2003

(in thousands)	OFFICE	TEMPERATURE- CONTROLLED LOGISTICS	OTHER	TOTAL
Real estate, net	\$ 754,882	\$ 1,187,387		
Cash	31,309	12,439		
Other assets	51,219	88,668		
Total assets	\$ 837,410	\$ 1,288,494		
Notes payable	\$ 515,047	\$ 548,776		
Notes payable to the Company	--	--		
Other liabilities	29,746	11,084		
Equity	292,617	728,634		
Total liabilities and equity	\$ 837,410	\$ 1,288,494		
Company's share of unconsolidated debt	\$ 172,376	\$ 219,511	\$ 2,495	\$ 394,382
Company's investments in unconsolidated companies	\$ 99,139	\$ 300,917	\$ 40,538	\$ 440,594

23

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY STATEMENTS OF OPERATIONS:

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(in thousands)	OFFICE	TEMPERATURE- CONTROLLED LOGISTICS	OTHER	TOTAL
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Total revenues	\$	65,062	\$	57,078		
Expenses:						
Operating expense		27,414		12,205 (2)		
Interest expense		15,062		25,358		
Depreciation and amortization		15,088		29,179		
Taxes and other (income) expense		--		(2,148)		
Total expenses		57,564	\$	64,594		
Net income, impairments and gain (loss) on real estate from discontinued operations	\$	7,498	\$	(7,516)		
Company's equity in net income (loss) of unconsolidated companies	\$	1,690	\$	(3,608)	\$	(1,135)
					\$	(3,053)

SUMMARY STATEMENTS OF OPERATIONS:

FOR THE SIX MONTHS ENDED JUNE 30, 2003

(in thousands)	OFFICE	TEMPERATURE-CONTROLLED LOGISTICS	THE WOODLANDS LAND DEVELOPMENT COMPANY, L.P. (1)	OTHER
Total revenues	67,058	\$ 63,441	\$ 54,434	
Expenses:				
Operating expense	29,870	12,384 (2)	42,552	
Interest expense	12,547	20,572	3,508	
Depreciation and amortization	15,181	29,362	3,288	
Taxes and other (income) expense	--	(1,418)	--	
Total expenses	57,598	\$ 60,900	\$ 49,348	
Net income, impairments and gain (loss) on real estate from discontinued operations	\$ 9,460	\$ 2,541	\$ 5,086	
Company's equity in net income (loss) of unconsolidated companies	\$ 3,322	\$ 1,101	\$ 2,670	\$ 1,101

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- (1) The Company sold its interest in The Woodlands Land Development Company, L.P. on December 31, 2003.
- (2) Inclusive of the preferred return paid to Vornado Realty Trust (1% per annum of the total combined assets).

24

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNCONSOLIDATED DEBT ANALYSIS

The following table shows, as of June 30, 2004, information about the Company's share of unconsolidated fixed and variable rate debt and does not take into account any extension options, hedge arrangements or the entities' anticipated pay-off dates.

DESCRIPTION	BALANCE OUTSTANDING AT JUNE 30, 2004	COMPANY SHARE OF BALANCE AT JUNE 30, 2004	INTEREST RATE AT JUNE 30, 2004	MA
	----- (in thousands)	-----	-----	-----
TEMPERATURE-CONTROLLED LOGISTICS SEGMENT:				
Vornado Crescent-Portland Partnership - 40% Company				
Goldman Sachs (1)	\$ 489,910	\$ 195,964	6.89%	
Morgan Stanley (2)	252,707	101,083	4.24%	
Various Capital Leases	35,441	14,176	4.84 to	
			13.63%	
Bank of New York	50	20	12.88%	
	----- 778,108	----- 311,243		
OFFICE SEGMENT:				
Main Street Partners, L.P. - 50% Company (3) (4)	129,352	64,676	5.48%	1
Crescent 5 Houston Center, L.P. - 25% Company	90,000	22,500	5.00%	1
Crescent Miami Center, LLC - 40% Company	81,000	32,400	5.04%	9
Crescent One BriarLake Plaza, L.P. - 30% Company	50,000	15,000	5.40%	1
Houston PT Four Westlake Office Limited Partnership - 20% Company	47,752	9,550	7.13%	
Crescent Five Post Oak Park, L.P. - 30%	45,000	13,500	4.82%	

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Company

Austin PT BK One Tower Office Limited Partnership - 20% Company	37,141	7,428	7.13%
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Houston PT Three Westlake Office Limited Partnership - 20% Company	33,000	6,600	5.61%
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513,245	171,654
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RESIDENTIAL SEGMENT:

Blue River Land Company, L.L.C. - 50% Company (5)	3,089	1,545	4.35%
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TOTAL UNCONSOLIDATED DEBT	1,294,442	484,442
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FIXED RATE/WEIGHTED AVERAGE	6.63%
VARIABLE RATE/WEIGHTED AVERAGE	4.72%

TOTAL WEIGHTED AVERAGE	5.97%
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- (1) URS Real Estate, L.P. and AmeriCold Real Estate, L.P., subsidiaries of the Temperature-Controlled Logistics Corporation, expect to repay this note on the Optional Prepayment Date of April 11, 2008. The overall weighted average maturity would be 3.74 years based on this date.
- (2) On February 5, 2004, the Temperature-Controlled Logistics Corporation completed a mortgage financing with Morgan Stanley Mortgage Capital, Inc., secured by twenty-one of its owned and seven of its leased properties. The loan bears interest at LIBOR + 295 basis points (with a LIBOR floor of 1.5% with respect to \$54.4 million of the loan) and requires principal payments of \$5.0 million annually. In connection with this loan, the Company entered into an interest-rate cap agreement with a maximum LIBOR of 6.5% on the entire loan.
- (3) Senior Note - Note A: \$81.4 million at variable interest rate, LIBOR + 189 basis points, \$4.8 million at variable interest rate, LIBOR + 250 basis points with a LIBOR floor of 2.50%. Note B: \$23.9 million at variable interest rate, LIBOR + 650 basis points with a LIBOR floor of 2.50%. Mezzanine Note - \$19.2 million AT variable interest rate, LIBOR + 890 basis points with a LIBOR floor of 3.0%. In connection with this loan, the Company entered into an interest-rate cap agreement with a maximum LIBOR of 4.52% on all notes. All notes are amortized based on a 25-year schedule.
- (4) The Company and its joint venture partner each obtained separate Letters of Credit to guarantee the repayment of up to \$4.3 million each of principal of the Main Street Partners, L.P. loan.
- (5) The variable rate loan has an interest rate of LIBOR + 300 basis points. A fully consolidated entity of CRDI, of which CRDI owns 88.3%, provides an unconditional guarantee of up to 70% of the outstanding balance of up to a \$9.0 million loan to Blue River Land Company, L.L.C. There was approximately \$3.1 million outstanding at June 30, 2004 and the amount guaranteed was \$2.2 million.

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. NOTES PAYABLE AND BORROWINGS UNDER CREDIT FACILITY

The following is a summary of the Company's debt financing at June 30, 2004:

SECURED DEBT

AEGON Partnership Note due July 2009, bears interest at 7.53% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the Funding III, IV and V Properties (Greenway Plaza).....

Bank of America Fund XII Term Loan due January 2006, bears interest at LIBOR plus 225 basis points (at June 30, 2004, the interest rate was 3.42%), with a two-year interest-only term and a one-year extension option, secured by the Funding XII Properties.....

LaSalle Note I(1) due August 2027, bears interest at 7.83% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the Funding I Properties.....

JP Morgan Mortgage Note(2) bears interest at 8.31% with monthly principal and interest payments based on a 25-year amortization schedule through maturity in October 2016, secured by the Houston Center mixed-use Office Property Complex.....

Fleet Fund I Term Loan due May 2005, bears interest at LIBOR plus 350 basis points (at June 30, 2004, the interest rate was 4.63%), with a four-year interest-only term, secured by equity interests in Funding I.....

LaSalle Note II bears interest at 7.79% with monthly principal and interest payments based on a 25-year amortization schedule through maturity in March 2006, secured by defeasance investments (3).....

Lehman Capital Note (4) due March 2005, bears interest at the 30-day LIBOR rate plus 150 basis points (at June 30, 2004, the interest rate was 2.82%), with a nine-month interest-only term, secured by the Fountain Place Office Property.....

Fleet Term Loan due February 2007, bears interest at LIBOR rate plus 450 basis points (at June 30, 2004, the interest rate was 5.69%) with an interest only term, secured by excess cash flow distributions from Funding III, Funding IV and Funding V.....

Cigna Note due June 2010, bears interest at 5.22% with an interest-only term, secured by the 707 17th Street Office Property and the Denver Marriott City Center.....

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Bank of America Note due May 2013, bears interest at 5.53% with an initial 2.5-year interest-only term (through November 2005), followed by monthly principal and interest payments based on a 30-year amortization schedule, secured by The Colonnade Office Property.....

Mass Mutual Note(5) due August 2006, bears interest at 7.75% with principal and interest payments based on a 25-year amortization schedule, secured by the 3800 Hughes Parkway Office Property.....

Metropolitan Life Note V due December 2005, bears interest at 8.49% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the Datran Center Office Property.....

Metropolitan Life Note VII due May 2011, bears interest at 4.31% with monthly interest only payments based on a 25-year amortization schedule, secured by the Dupont Centre Office Property.....

National Bank of Arizona Revolving Line of Credit(6) with maturities ranging from November 2004 to December 2005, bears interest ranging from 4.00% to 5.00%, secured by certain DMDC assets.....

26

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SECURED DEBT (CONTINUED)

Northwestern Life Note due November 2008, bears interest at 4.94% with an interest-only term, secured by the 301 Congress Avenue Office Property.....

Allstate Note(5) due September 2010, bears interest at 6.65% with principal and interest payments based on a 25-year amortization schedule, secured by the 3993 Hughes Parkway Office Property.....

Metropolitan Life Note VI(5) due October 2009, bears interest at 7.71% with principal and interest payments based on a 25-year amortization schedule, secured by the 3960 Hughes Parkway Office Property.....

Northwestern Life Note II(5) due July 2007, bears interest at 7.40% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the 3980 Howard Hughes Parkway Office Property.....

FHI Finance Loan bears interest at LIBOR plus 450 basis points (at June 30, 2004, the interest rate was 5.63%), with an initial interest-only term until the Net Operating Income Hurdle Date(7), followed by monthly principal and interest payments based on a 20-year amortization schedule through maturity in September 2009, secured by the Sonoma Mission Inn & Spa.....

Woodmen of the World Note due April 2009, bears interest at 8.20% with an initial five-year interest-only term (through November 2006), followed by monthly principal and interest payments based on a 25-year amortization schedule, secured by the Avallon IV Office Property.....

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Nomura Funding VI Note(8) due July 2020 bears interest at 10.07% with monthly principal and interest payments based on a 25-year amortization schedule, secured by the Funding VI Property.....

The Rouse Company Note due December 2005 bears interest at prime rate plus 100 basis points (at June 30, 2004, the interest rate was 5.0%) with an interest-only term, secured by undeveloped land in Hughes Center.....

Wells Fargo note due September 2004, bears interest at LIBOR rate plus 200 basis points (at June 30, 2004, the interest rate was 3.23%), with an interest-only term, secured by 3770 Howard Hughes Parkway Office Property.....

Construction, acquisition and other obligations, bearing fixed and variable interest rates ranging from 2.9% to 10.50% at June 30, 2004, with maturities ranging between July 2004 and February 2009, secured by various CRDI and MVDC projects(9).....

UNSECURED DEBT

2009 Notes bear interest at a fixed rate of 9.25% with a seven-year interest-only term, due April 2009 with a call date of April 2006.....

2007 Notes bear interest at a fixed rate of 7.50% with a ten-year interest-only term, due September 2007.....

Credit Facility(10) interest only due May 2005, bears interest at LIBOR plus 212.5 basis points (at June 30, 2004, the interest rate was 3.36%).....

Total Notes Payable.....

- (1) In August 2007, the interest rate will increase, and the Company is required to remit, in addition to the monthly debt service payment, excess property cash flow, as defined, to be applied first against principal and thereafter against accrued excess interest, as defined. It is the Company's intention to repay the note in full at such time (August 2007) by making a final payment of approximately \$221.7 million.
- (2) In October 2006, the interest rate will adjust based on current interest rates at that time. It is the Company's intention to repay the note in full at such time (October 2006) by making a final payment of approximately \$177.8 million.
- (3) In December 2003 and January 2004, the Company purchased a total of \$179.6 million in U.S. Treasuries and government sponsored agency securities ("defeasance investments") to substitute as collateral for this loan. The cash flow from the defeasance investments (principal and interest) will match the total debt service payments of this loan.

27

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- (4) The Company's obligations under this loan were transferred to FP Investors L.L.C. as part of the transaction in connection with the Fountain Place Office Property. See Note 6, "Other Transactions," for further information

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regarding this transaction.

- (5) The Company assumed these loans in connection with the Hughes Center acquisitions. The following table lists the premium associated with the assumption of above market interest rate debt which is included in the balance outstanding at June 30, 2004 and the effective interest rate of the debt including the premium.

(dollars in thousands)

Loan	Premium	Effective Rate
-----	-----	-----
Mass Mutual Note	\$ 3,020	3.47%
Allstate Note	1,588	5.19%
Metropolitan Life Note VI	2,139	5.68%
Northwestern Life Note II	953	3.80%

Total	\$ 7,700	
	=====	

The \$7.7 million was recorded as an increase in the carrying amount of the underlying debt and is being amortized as a reduction of interest expense through maturity of the underlying debt.

- (6) This facility is a \$37.6 million line of credit secured by certain DMDC land and asset improvements ("revolving credit facility"), notes receivable ("warehouse facility") and additional land ("short-term facility"). The line restricts the revolving credit facility to a maximum outstanding amount of \$26.0 million and is subject to certain borrowing base limitations and bears interest at prime (at June 30, 2004, the interest rate was 4.0%). The warehouse facility bears interest at prime plus 100 basis points (at June 30, 2004, the interest rate was 5.0%) and is limited to \$10.0 million. The short-term facility bears interest from prime plus 50 basis points to prime plus 100 basis points (at June 30, 2004, the interest rates were 4.5% to 5.0%) and is limited to \$1.6 million. The blended rate at June 30, 2004, for the revolving credit facility, the warehouse facility and the short-term facility was 4.3%.
- (7) The Company's joint venture partner, which owns a 19.9% interest in the Sonoma Mission Inn & Spa, had funded \$10.0 million of renovations at the Sonoma Mission Inn & Spa through a mezzanine loan. The Net Operating Income Hurdle Date, as defined in the loan agreement, is the date as of which the Sonoma Mission Inn & Spa has achieved an aggregate Adjusted Net Operating Income, as defined in the loan agreement, of \$12 million for a period of 12 consecutive calendar months.
- (8) In July 2010, the interest rate will adjust based on current interest rates at that time. It is the Company's intention to repay the note in full at such time (July 2010) by making a final payment of approximately \$6.1 million.
- (9) Includes \$14.6 million of fixed rate debt ranging from 2.9% to 10.5% and \$61.1 million of variable rate debt ranging from 3.4% to 4.5%.
- (10) The \$400.0 million Credit Facility with Fleet is an unsecured revolving line of credit to Funding VIII and guaranteed by the Operating Partnership. Availability under the line of credit is subject to certain covenants including limitations on total leverage, fixed charge ratio, debt service

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coverage, minimum tangible net worth, and specific mix of office and hotel assets and average occupancy of Office Properties. At June 30, 2004, the maximum borrowing capacity under the credit facility was \$392.0 million. The outstanding balance excludes letters of credit issued under the Company's credit facility of \$7.6 million which reduce the Company's maximum borrowing capacity.

On June 28, 2004, the Company paid off the \$220.0 million Deutsche Bank-CMBS loan with proceeds from the Fountain Place transaction and a draw on the Company's credit facility. See Note 6, "Other Transactions," for additional information regarding the Fountain Place transaction. The loan was secured by the Funding X Properties and Spectrum Center. In July 2004, the Company unwound the \$220.0 million interest rate cap with JP Morgan Chase that corresponded to this loan.

The following table shows information about the Company's consolidated fixed and variable rate debt and does not take into account any extension options, hedging arrangements or the Company's anticipated payoff dates.

(in thousands)	BALANCE	PERCENTAGE OF DEBT (1)	WEIGHTED AVERAGE RATE	WEIGHTED AVERAGE MATURITY (2)
Fixed Rate Debt	\$ 1,799,628	66 %	7.81 %	7.6 years
Variable Rate Debt	911,021	34	3.80	1.2 years
Total Debt	\$ 2,710,649	100.0 %	6.48 % (3)	5.1 years

- (1) Balance excludes hedges. The percentages for fixed rate debt and variable rate debt, including the \$400.0 million of hedged variable rate debt, are 81% and 19%, respectively.
- (2) Excludes effect of extension options on Bank of America Fund XII Term Loan and expected early payment of LaSalle Note I, JP Morgan Mortgage Note, or the Nomura Funding VI Note.
- (3) Including the effect of hedge arrangements, the overall weighted average interest rate would have been 6.82%.

28

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Listed below are the aggregate principal payments by year required as of June 30, 2004 under indebtedness of the Company. Scheduled principal installments and amounts due at maturity are included and are based on contractual maturities and do not include extension options.

(in thousands)	SECURED DEBT	UNSECURED DEBT	UNSECURED DEBT LINE OF CREDIT
	-----	-----	-----

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2004	\$	45,319	\$	--	\$	--
2005		370,526		--		232,500
2006		459,134		--		--
2007		109,888		250,000		--
2008		47,321		--		--
Thereafter		820,961		375,000		--
		-----		-----		-----
	\$	1,853,149	\$	625,000	\$	232,500
		=====		=====		=====

-
- (1) Excludes effect of extension options on Bank of America Fund XII Term Loan and expected early payment of LaSalle Note I, JP Morgan Mortgage Note, or the Nomura Funding VI Note.

The Company is generally obligated by its debt agreements to comply with financial covenants, affirmative covenants and negative covenants, or some combination of these types of covenants. Failure to comply with covenants generally will result in an event of default under that debt instrument. Any uncured or unwaived events of default under the Company's loans can trigger an increase in interest rates, an acceleration of payment on the loan in default, and for the Company's secured debt, foreclosure on the property securing the debt. In addition, a default by the Company or any of its subsidiaries with respect to any indebtedness in excess of \$5.0 million generally will result in a default under the Credit Facility, 2007 Notes, 2009 Notes, the Bank of America Fund XII Term Loan, the Fleet Fund I Term Loan and the Fleet Term Loan after the notice and cure periods for the other indebtedness have passed. As of June 30, 2004, no event of default had occurred, and the Company was in compliance with all covenants related to its outstanding debt. The Company's debt facilities generally prohibit loan pre-payment for an initial period, allow pre-payment with a penalty during a following specified period and allow pre-payment without penalty after the expiration of that period. During the six months ended June 30, 2004, there were no circumstances that required prepayment or increased collateral related to the Company's existing debt.

DEFEASANCE OF LASALLE NOTE II

In January 2004, the Company released the remaining properties in Funding II by reducing the Fleet Fund I and II Term Loan by \$104.2 million and purchasing an additional \$170.0 million of U.S. Treasury and government sponsored agency securities with an initial weighted average yield of 1.76%. The Company placed those securities into a collateral account for the sole purpose of funding payments of principal and interest on the remainder of the LaSalle Note II. The cash flow from the securities is structured to match the cash flow (principal and interest payments) required under the LaSalle Note II. The retirement of the Fleet loan and the purchase of the defeasance securities were funded through the \$275 million Bank of America Fund XII Term Loan. The collateral for the Bank of America loan is 10 of the 11 properties previously in the Funding II collateral pool, which are now held in Funding XII. The Bank of America loan is structured to allow the Company the flexibility to sell, joint venture or long-term finance these 10 assets over the next 36 months. The final Funding II property, Liberty Plaza, was moved to the Operating Partnership and subsequently sold in April 2004.

In addition to the subsidiaries listed in Note 1, "Organization and Basis of Presentation," certain other subsidiaries of the Company were formed primarily for the purpose of obtaining secured and unsecured debt or joint venture financings. These entities, all of which are consolidated and are

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grouped based on the Properties to which they relate, are: Funding I Properties (CREM Holdings, LLC, Crescent Capital Funding, LLC, Crescent Funding Interest, LLC, CRE Management I Corp.); Funding III Properties (CRE Management III Corp.); Funding IV Properties (CRE Management IV Corp.); Funding V Properties (CRE Management V Corp.); Funding VI Properties (CRE Management VI Corp.); Funding VIII Properties (CRE Management VIII, LLC); 707 17th Street (Crescent 707 17th Street, LLC); Funding X Properties (CREX X Holdings Management, LLC, CREF X Holdings, L.P., CRE Management X, LLC); Funding XII Properties (CREF XII Parent GP, LLC, CREF XII Parent L.P., CREF XII Holding GP, LLC, CREF Holdings, L.P., CRE Management XII, LLC); Spectrum Center (Spectrum Mortgage Associates, L.P., CSC Holdings Management, LLC, Crescent SC Holdings, L.P., CSC Management, LLC), The BAC-Colonnade (CEI Colonnade Holdings, LLC), and Crescent Finance Company.

29

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. CASH FLOW HEDGES

The Company uses derivative financial instruments to convert a portion of its variable rate debt to fixed rate debt and to manage its fixed to variable rate debt ratio. As of June 30, 2004, the Company had three cash flow hedge agreements which are accounted for in conformity with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133."

The following table shows information regarding the Company's interest rate swaps designated as cash flow hedge agreements during the six months ended June 30, 2004, and additional interest expense and unrealized gains (losses) recorded in Accumulated Other Comprehensive Income ("OCI").

EFFECTIVE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL INTEREST EXPENSE

(in thousands)					
4/18/00	\$ 100,000	4/18/04	6.76%	\$ --	\$ 1,712
2/15/03	100,000	2/15/06	3.26%	(775)	1,082
2/15/03	100,000	2/15/06	3.25%	(771)	1,081
9/02/03	200,000	9/01/06	3.72%	(2,749)	2,649
				-----	-----
				\$ (4,295)	\$ 6,524
				=====	=====

In addition, two of the Company's unconsolidated companies have cash flow hedge agreements of which the Company's portion of change in unrealized gains reflected in OCI was approximately \$0.4 million for the six months ended June 30, 2004.

The Company has designated its cash flow hedge agreements as cash flow hedges of LIBOR-based monthly interest payments on a designated pool of variable rate LIBOR indexed debt that re-prices closest to the reset dates of each cash flow hedge agreement. The cash flow hedges have been and are expected to remain

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highly effective. Changes in the fair value of these highly effective hedging instruments are recorded in OCI. The effective portion that has been deferred in OCI will be reclassified to earnings as interest expense when the hedged items impact earnings. If a cash flow hedge falls outside 80%-125% effectiveness for a quarter, all changes in the fair value of the cash flow hedge for the quarter will be recognized in earnings during the current period. If it is determined based on prospective testing that it is no longer likely a hedge will be highly effective on a prospective basis, the hedge will no longer be designated as a cash flow hedge in conformity with SFAS No. 133, as amended. The Company had no ineffectiveness related to its cash flow hedges, resulting in no earnings impact due to ineffectiveness for the six months ended June 30, 2004.

INTEREST RATE CAP

In March 2004, in connection with the Bank of America Fund XII Term Loan, the Company entered into a LIBOR interest rate cap struck at 6.00% for a notional amount of approximately \$206.3 million through August 31, 2004, \$137.5 million from September 1, 2004 through February 28, 2005, and \$68.8 million from March 1, 2005 through March 1, 2006. Simultaneously, the Company sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes to their respective fair values are charged to earnings as the changes occur. As the significant terms of these arrangements are the same, the effects of a revaluation of these instruments are expected to offset each other.

30

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. COMMITMENTS AND CONTINGENCIES

GUARANTEE COMMITMENTS

The FASB issued Interpretation 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"), requiring a guarantor to disclose its guarantees. The Company's guarantees in place as of June 30, 2004 are listed in the table below. For the guarantees on indebtedness, no triggering events or conditions are anticipated to occur that would require payment under the guarantees and management believes the assets associated with the loans that are guaranteed are sufficient to cover the maximum potential amount of future payments and therefore, would not require the Company to provide additional collateral to support the guarantees. The Company has not recorded a liability associated with these guarantees as they were entered into prior to the adoption of FIN 45.

	GUARANTEED AMOUNT OUTSTANDING AT JUNE 30, 2004	MAXIMUM GUARANTEE AMOUNT
	-----	-----
DEBTOR	(in thousands)	
CRDI - Eagle Ranch Metropolitan District - Letter of Credit (1)	\$ 7,583	\$ 7
Blue River Land Company, L.L.C. (2) (3)	2,162	6
Main Street Partners, L.P. - Letter of Credit (2) (4)	4,250	4
	-----	-----
Total Guarantees	\$ 13,995	\$ 18

-
- (1) The Company provides a \$7.6 million letter of credit to support the payment of interest and principal of the Eagle Ranch Metropolitan District Revenue Development Bonds.
 - (2) See Note 8, "Investments in Unconsolidated Companies," for a description of the terms of this debt.
 - (3) A fully consolidated entity of CRDI, of which CRDI owns 88.3%, provides an unconditional guarantee of up to 70% of the outstanding balance of up to a \$9.0 million loan to Blue River Land Company, L.L.C. There was approximately \$3.1 million outstanding at June 30, 2004 and the amount guaranteed was \$2.2 million.
 - (4) The Company and its joint venture partner each obtained separate Letters of Credit to guarantee the repayment of up to \$4.3 million each of the Main Street Partners, L.P. loan.

OTHER COMMITMENTS

In 2003, the Company entered into a one year option agreement for the future sale of approximately 1.5 acres of undeveloped investment land located in Houston, Texas, for approximately \$7.8 million. The Company received \$0.01 million of consideration in 2003. The option agreement may be extended up to four years on a yearly basis at the option of the prospective purchaser for additional consideration.

See Note 16, "COPI," for a description of the Company's commitments related to the agreement with COPI, executed on February 14, 2002.

CONTINGENCIES

See Note 6, "Other Transactions," for information on the Company's \$79.9 million contingent obligation included in the "Accounts payable, accrued expenses and other liabilities" line item in the Company's Consolidated Balance Sheet at June 30, 2004, related to the Fountain Place Office Property transaction.

The Company has a contingent obligation of approximately \$0.9 million related to a construction warranty matter. The Company believes it is probable that a significant amount would be recovered through reimbursements from third parties.

12. MINORITY INTEREST

Minority interest in the Operating Partnership represents the proportionate share of the equity in the Operating Partnership of limited partners other than the Company. The ownership share of limited partners other than the Company is evidenced by Operating Partnership units. The Operating Partnership pays a regular quarterly distribution to the holders of Operating Partnership units.

Each Operating Partnership unit may be exchanged for either two common shares of the Company or, at the election of the Company, cash equal to the fair market value of two common shares at the time of the exchange. When a unitholder exchanges a unit, the Company's percentage interest in the Operating Partnership increases. During the six months ended June 30, 2004, there were 9,036 units exchanged for 18,072 common shares of the Company.

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Minority interest in real estate partnerships represents joint venture or preferred equity partners' proportionate share of the equity in certain real estate partnerships. The Company holds a controlling interest in the real estate partnerships and consolidates the real estate partnerships into the financial statements of the Company. Income in the real estate partnerships is allocated to minority interest based on weighted average percentage ownership during the year.

The following table summarizes the minority interest as of June 30, 2004 and December 31, 2003:

	JUNE 30, 2004	DECEMBER 31, 2003
	-----	-----
(in thousands)		
Limited partners in the Operating Partnership	\$ 91,844	\$ 108,7
Development joint venture partners - Residential Development Segment	28,988	31,3
Joint venture partners - Office Segment	8,831	8,7
Joint venture partners - Resort/Hotel Segment	6,209	7,0
Other	(146)	
	-----	-----
	\$ 135,726	\$ 155,8
	=====	=====

The following table summarizes the minority interests' share of net loss (income) for the six months ended June 30, 2004 and 2003:

	JUNE 30, 2004	JUNE 30, 2003
	-----	-----
(in thousands)		
Limited partners in the Operating Partnership	\$ 3,737	\$ 1,027
Development joint venture partners - Residential Development Segment	(476)	(1,112)
Joint venture partners - Office Segment	41	126
Joint venture partners - Resort/Hotel Segment	818	539
Other	6	--
	-----	-----
	\$ 4,126	\$ 580
	=====	=====

13. SHAREHOLDERS' EQUITY

DISTRIBUTIONS

The following table summarizes the distributions paid or declared to

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common shareholders, unitholders and preferred shareholders during the six months ended June 30, 2004 (dollars in thousands, except per share amounts).

SECURITY	PER SHARE DIVIDEND/ DISTRIBUTION	TOTAL AMOUNT	RECORD DATE	PAYME DATE
-----	-----	-----	-----	-----
Common Shares/Units (1)	\$ 0.375	\$ 43,910	01/31/04	02/1
Common Shares/Units (1)	\$ 0.375	\$ 43,921	04/30/04	05/1
Series A Preferred Shares	\$ 0.422	\$ 5,991	01/31/04	02/1
Series A Preferred Shares	\$ 0.422	\$ 5,991	04/30/04	05/1
Series B Preferred Shares	\$ 0.594	\$ 2,019	01/31/04	02/1
Series B Preferred Shares	\$ 0.594	\$ 2,019	04/30/04	05/1

(1) Represents one-half the amount of the distribution per unit because each unit is exchangeable for two common shares.

32

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SERIES A PREFERRED OFFERING

On January 15, 2004, the Company completed an offering (the "January 2004 Series A Preferred Offering") of an additional 3,400,000 Series A Convertible Cumulative Preferred Shares (the "Series A Preferred Shares") at a \$21.98 per share price and with a liquidation preference of \$25.00 per share for aggregate total offering proceeds of approximately \$74.7 million. The Series A Preferred Shares are convertible at any time, in whole or in part, at the option of the holders into common shares of the Company at a conversion price of \$40.86 per common share (equivalent to a conversion rate of 0.6119 common shares per Series A Preferred Share), subject to adjustment in certain circumstances. The Series A Preferred Shares have no stated maturity and are not subject to sinking fund or mandatory redemption. At any time, the Series A Preferred Shares may be redeemed, at the Company's option, by paying \$25.00 per share plus any accumulated accrued and unpaid distributions. Dividends on the additional Series A Preferred Shares are cumulative from November 16, 2003, and are payable quarterly in arrears on the fifteenth of February, May, August and November, commencing February 16, 2004. The annual fixed dividend on the Series A Preferred Shares is \$1.6875 per share.

Net proceeds to the Company from the January 2004 Series A Preferred Offering were approximately \$71.0 million after underwriting discounts, offering costs and dividends accrued on the shares up to the issuance date. The Company used the net proceeds to pay down the Company's credit facility.

14. INCOME TAXES

TAXABLE CONSOLIDATED ENTITIES

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities of taxable consolidated entities for financial reporting purposes and the amounts used for income tax purposes. For the six months ended June 30, 2004, the taxable consolidated

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entities were comprised of the taxable REIT subsidiaries of the Company.

The Company intends to maintain its qualification as a REIT under Section 856 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, the Company generally will not be subject to federal corporate income taxes as long as it satisfies certain technical requirements of the Code, including the requirement to distribute 90% of REIT taxable income to its shareholders. Accordingly, the Company does not believe that it will be liable for current income taxes on its REIT taxable income at the federal level or in most of the states in which it operates. The Company consolidates certain taxable REIT subsidiaries, which are subject to federal and state income tax. For the six months ended June 30, 2004 and 2003, the Company's federal income tax benefit from continuing operations was \$6.6 million and \$5.5 million, respectively. The Company's \$6.6 million income tax benefit at June 30, 2004 consists primarily of \$5.2 million for the Residential Development Segment and \$3.3 million for the Resort/Hotel Segment partially offset by \$0.8 million tax expense for the Office Segment and \$1.1 million expense for other taxable REIT subsidiaries.

The Company's total net tax asset of approximately \$27.9 million at June 30, 2004 includes \$17.3 million of net deferred tax assets. SFAS No. 109, "Accounting for Income Taxes," requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of the evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. There was no change in the valuation allowance during the six months ended June 30, 2004.

15. RELATED PARTY TRANSACTIONS

LOANS TO EMPLOYEES AND TRUST MANAGERS OF THE COMPANY FOR EXERCISE OF STOCK OPTIONS AND UNIT OPTIONS

As of June 30, 2004, the Company had approximately \$38.0 million loan balances outstanding, inclusive of current interest accrued of approximately \$0.2 million, to certain employees and trust managers of the Company on a recourse basis pursuant to the Company's stock incentive plans and unit incentive plans pursuant to an agreement approved by the Board of Trust Managers and the Executive Compensation Committee of the Company. The proceeds of these loans were used by the employees and the trust managers to acquire common shares of the Company pursuant to the exercise of vested stock and unit options. Pursuant to the loan agreements, these loans bear interest at a rate of 2.52% per year, payable quarterly, and mature on July 28, 2012 and may be repaid in full or in part at any time without premium or penalty. Mr. Goff had a loan representing \$26.4 million of the \$38.0 million total outstanding loans at June 30, 2004. No conditions exist at June 30, 2004 which would cause any of the loans to be in default. Effective July 29, 2002, the Company ceased offering to its employees and trust managers the option to obtain loans pursuant to the Company's stock and unit incentive plans.

33

CRESCENT REAL ESTATE EQUITIES COMPANY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OTHER

On June 28, 2002, the Company purchased the home of an executive officer of the Company to facilitate the hiring and relocation of this executive officer. The purchase price was approximately \$2.6 million, consistent with a third-party appraisal obtained by the Company. Shortly after the purchase of the home, certain changes in the business environment in Houston resulted in a weakened housing market. In May 2004, the Company completed the sale of the home

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for proceeds, net of selling costs, of approximately \$1.8 million. The Company previously recorded an impairment charge of approximately \$0.6 million, net of taxes, during the year ended December 31, 2003. The purchase was part of the officer's relocation agreement with the Company.

16. COPI

On February 14, 2002, the Company and COPI entered into an agreement (the "Agreement") pursuant to which COPI and the Company agreed to jointly seek approval by the bankruptcy court of a pre-packaged bankruptcy plan for COPI. The Company agreed to fund certain of COPI's costs, claims and expenses relating to the bankruptcy and related transactions. From February 14, 2002 through June 30, 2004, the Company loaned to COPI, or paid directly on COPI's behalf, approximately \$13.2 million to fund these costs, claims and expenses, \$2.1 million of which was funded in the six months ended June 30, 2004. The Company also agreed to issue common shares with a dollar value of approximately \$2.2 million to the COPI stockholders.

In addition, the Company agreed to use commercially reasonable efforts to assist COPI in arranging COPI's repayment of its \$15.0 million obligation to Bank of America, together with any accrued interest. COPI obtained the loan from Bank of America primarily to participate in investments with the Company. As a condition to making the loan, Bank of America required Richard E. Rainwater, the Chairman of the Board of Trust Managers of the Company, and John C. Goff, Vice-Chairman of the Board of Trust Managers and Chief Executive Officer of the Company, to enter into a support agreement with COPI and Bank of America, pursuant to which Messrs. Rainwater and Goff agreed to make additional equity investments in COPI under certain circumstances. The Company and COPI are assessing other alternatives for the sale of COPI's 40% interest in the tenant of the Temperature-Controlled Logistics properties, AmeriCold Logistics. At this time, the Company does not expect to spin-off to its shareholders a new entity that would purchase COPI's interest in AmeriCold Logistics. COPI has agreed that it will use the proceeds of the sale of its interest in AmeriCold Logistics to repay Bank of America in full.

On March 10, 2003, COPI filed a plan under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas. On June 22, 2004, the bankruptcy court confirmed the bankruptcy plan, as amended. Effectiveness of the pre-packaged bankruptcy plan for COPI is contingent upon a number of conditions, including the sale of COPI's interest in AmeriCold Logistics, the repayment of COPI's obligation to Bank of America prior to October 21, 2004 and the issuance by the Company of common shares to the COPI stockholders.

17. SUBSEQUENT EVENTS

ASSET ACQUISITIONS

On August 6, 2004, the Company acquired Alhambra Plaza, a 318,000 square foot Class A Office Property, located in the Coral Gables submarket of Miami, Florida. The Company acquired the Office Property for approximately \$72.3 million, funded by the Company's assumption of a \$45.0 million loan from Wachovia Bank and a draw on the Company's credit facility. The Office Property is wholly-owned and will be included in the Company's Office Segment.

ASSET DISPOSITIONS

On July 2, 2004, the Company completed the sale of the 5050 Quorum Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$8.9 million and a loss of approximately \$0.1 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$0.8 million, net of minority interests, during the quarter

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ended March 31, 2004. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned. The Company will continue to provide management and leasing services for this property.

On July 29, 2004, the Company completed the sale of the 12404 Park Central Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$9.3 million. During the three months ended June 30, 2004, the Company recorded an impairment charge of approximately \$0.4 million, net of minority interests. The Company previously recorded impairment charges totaling approximately \$3.6 million, net of minority interests, \$2.9 million during the year ended December 31, 2003 and \$0.7 million during the quarter ended March 31, 2004. The proceeds from the sale were used primarily to pay down the Bank of America Fund XII Term Loan. This property was wholly-owned. The Company will continue to provide management and leasing services for this property.

34

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

INDEX TO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements.....	36
Overview.....	37
Recent Developments.....	40
Results of Operations	
Three and six months ended June 30, 2004 and 2003.....	42
Liquidity and Capital Resources	
Cash Flows for the six months ended June 30, 2004.....	49
Equity and Debt Financing.....	53
Unconsolidated Investments.....	57
Significant Accounting Policies.....	58
Funds from Operations.....	62

35

FORWARD-LOOKING STATEMENTS

You should read this section in conjunction with the consolidated interim financial statements and the accompanying notes in Item 1, "Financial Statements," of this document and the more detailed information contained in the Company's Form 10-K for the year ended December 31, 2003. In management's

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opinion, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation of the unaudited interim financial statements are included. Capitalized terms used but not otherwise defined in this section have the meanings given to them in the notes to the consolidated financial statements in Item 1, "Financial Statements."

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are generally characterized by terms such as "believe," "expect," "anticipate" and "may."

Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those described in the forward-looking statements.

The following factors might cause such a difference:

- o The Company's ability, at its office properties, to timely lease unoccupied square footage and timely re-lease occupied square footage upon expiration on favorable terms, which continue to be adversely affected by existing real estate conditions (including vacancy rates in particular markets, decreased rental rates and competition from other properties) and may be adversely affected by general economic downturns;
- o The continuation of relatively high vacancy rates and reduced rental rates in the Company's office portfolio as a result of the conditions within the Company's principal markets;
- o Adverse changes in the financial condition of existing tenants, in particular El Paso Energy and its affiliates which provide 4.6% of the Company's annualized office revenues;
- o Further deterioration in the resort/business-class hotel markets or in the market for residential land or luxury residences, including single-family homes, townhomes and condominiums, or in the economy generally;
- o Financing risks, such as the Company's ability to generate revenue sufficient to service and repay existing or additional debt, increases in debt service associated with increased debt and with variable-rate debt, the Company's ability to meet financial and other covenants and the Company's ability to consummate financings and refinancings on favorable terms and within any applicable time frames;
- o The ability of the Company to dispose of its investment land, and other non-core assets, on favorable terms and within anticipated time frames;
- o The ability of the Company to reinvest available funds at anticipated returns and consummate anticipated office acquisitions and within anticipated time frames;
- o Further or continued adverse conditions in the temperature-controlled logistics business (including both industry-specific conditions and a general downturn in the economy) which may further jeopardize the ability of the tenant to pay all current and deferred rent due;
- o The ability of the Company and COPI to satisfy the remaining conditions to achieve effectiveness of the COPI bankruptcy plan, including COPI's sale of the temperature-controlled logistics tenant, its repayment of the loan from Bank of America prior to October 21,

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2004, and the Company's issuance of Company common shares to the COPI stockholders;

- o The concentration of a significant percentage of the Company's assets in Texas;
- o The existence of complex regulations relating to the Company's status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT; and
- o Other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission.

Given these uncertainties, readers are cautioned not to place undue reliance on such statements. The Company is not obligated to update these forward-looking statements to reflect any future events or circumstances.

36

OVERVIEW

The Company is a REIT with assets and operations divided into four investment segments: Office, Resort/Hotel, Residential Development and Temperature-Controlled Logistics. The primary business of the Company is its Office Segment, which consisted of 75 Office Properties and represented 67% of gross assets as of June 30, 2004.

Capital flows in the real estate industry have changed significantly over the last few years. Institutions as well as other investors, principally U.S. pension funds, have increased their allocation to real estate and it appears that this will continue for the foreseeable future. This inflow of capital has created a uniquely attractive environment for the sale of assets as well as joint ventures. Likewise, the acquisition environment is highly competitive, making it more difficult to provide returns to common equity that are comparable to those achieved in acquisitions made during the 1990's.

The Company has adapted its strategy to align itself with institutional partners, with the goal of transitioning towards being a real estate investment management company. Rather than competing with the substantial inflow of capital into the acquisition market, the Company is focusing on acquiring assets jointly with these institutional investors, moving existing assets into joint-venture arrangements with these investors, and capitalizing on its award-winning platform in office management and its leasing expertise to continue to provide these services, for a fee, for the properties in the ventures. Where possible, the Company will strive to negotiate performance based incentives that allow for additional equity to be earned if return targets are exceeded.

Consistent with this strategy, the Company continually evaluates its existing portfolio for potential joint-venture opportunities. In the near to mid-term, the Company could more than double its existing level of joint ventures to over \$2 billion by contributing existing assets to ventures. As with previous ventures, the Company would be a minority partner but would continue to provide leasing and management services to the ventures. In addition, the Company is targeting the sale of an additional \$200 million in non-core assets by the end of 2004, including land holdings that are currently not contributing to the Company's earnings. Also included in these sales, are two business class hotels which the Company believes it can sell at attractive gains, and at the same time further simplify its business model. As these ventures and sales are completed, the Company will assess the potential benefits of utilizing a portion of the net proceeds to repurchase Company shares consistent with the

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requirements of its existing debt.

OFFICE SEGMENT

The following table shows the performance factors used by management to assess the operating performance of the Office Segment.

	2004

Economic Occupancy (at June 30 and December 31)	86.1%
Leased Occupancy (at June 30 and December 31)	87.2%
In-Place Weighted Average Full-Service Rental Rate (at June 30 and December 31)	\$23.08
Tenant Improvement and Leasing Costs per Sq. Ft. (three months ended June 30)	\$ 3.46
Tenant Improvement and Leasing Costs per Sq. Ft. (six months ended June 30)	\$ 3.14
Average Lease Term (three months ended June 30)	5.9 years
Average Lease Term (six months ended June 30)	6.4 years
Same-Store NOI(3) (Decline) (three months ended June 30)	(2.9)%
Same-Store NOI(3) (Decline) (six months ended June 30)	(3.5)%
Same-Store Average Occupancy (three months ended June 30)	86.1%
Same-Store Average Occupancy (six months ended June 30)	85.8%

-
- (1) Economic occupancy reflects the occupancy of all tenants paying rent. Excluding held for sale properties, economic occupancy is 87.0% and 84.8% at June 30, 2004 and December 31, 2003, respectively.
 - (2) Leased occupancy reflects the amount of contractually obligated space, whether or not commencement has occurred. Excluding held for sale properties, leased occupancy is 88.1% and 87.3% at June 30, 2004 and December 31, 2003, respectively.
 - (3) Same-store NOI (net operating income) represents office property net income excluding depreciation, amortization, interest expense and non-recurring items such as lease termination fees for Office Properties owned for the entirety of the comparable periods.
 - (4) Includes held for sale properties.
 - (5) Excludes held for sale properties.

The Company continues to expect that 2004 will be a year of stabilization in the Office Segment rather than meaningful growth, with projected average and year end occupancy remaining relatively flat compared to 2003. Tenant improvement and leasing costs in 2004 are expected to be in line with 2003. Same-store NOI is expected to decline by 3% to 6% in 2004, which is a lower rate of decline than that experienced in 2003.

37

The Company's tenant base continues to be diversified, with the top five tenants accounting for approximately 11.2% of total Office Segment rental revenues for the six months ended June 30, 2004. The loss of one or more of the Company's major tenants, in particular El Paso Energy and its affiliates which provide 4.6% of the Company's annualized Office Segment revenues, would have a temporary adverse effect on the Company's financial condition and results of operations until the Company is able to re-lease the space previously leased to these tenants.

RESORT/HOTEL SEGMENT

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The following table shows the performance factors used by management to assess the operating performance of the Resort/Hotel Segment, excluding held-for-sale properties.

	FOR THE THREE MONTHS ENDED JUNE 30,			
	AVERAGE OCCUPANCY RATE		AVERAGE DAILY RATE	
	2004	2003	2004	2003
	-----	-----	-----	-----
Upscale Business Class Hotels	64%	67%	\$ 109	\$ 114
Luxury and Destination Fitness Resorts	64	68	489	444
Total/Weighted Average for Resort/Hotel Properties	64%	67%	\$ 328	\$ 305

	FOR THE SIX MONTHS ENDED JUNE 30,			
	AVERAGE OCCUPANCY RATE		AVERAGE DAILY RATE	
	2004	2003	2004	2003
	-----	-----	-----	-----
Upscale Business Class Hotels	64%	71%	\$ 116	\$ 116
Luxury and Destination Fitness Resorts	66	69	523	490
Total/Weighted Average for Resort/Hotel Properties	65%	70%	\$ 354	\$ 329

Decreases in occupancy at the Company's upscale business class hotels are primarily attributable to increased competition in the convention business causing major cities to compete for conventions that have historically gone to secondary markets and new convention style hotels adding approximately 1,200 rooms in the Houston market and approximately 800 rooms in the Austin market. The occupancy decrease at the Company's luxury and destination fitness resorts is partially driven by decreased occupancy at Sonoma Mission Inn (from 74% in the second quarter 2003 to 62% in the second quarter 2004) as a result of the renovation of 97 rooms which were taken out of service in November 2003. Renovation was completed in the second quarter of 2004 and the 97 rooms were put back into service. In addition, occupancy decreased 25 percentage points (from 81% in the second quarter 2003 to 56% in the second quarter 2004) at Ventana Inn as a result of the renovation of 12 suites which were taken out of service in April 2004. The Company anticipates a minimal change in occupancy and a modest increase in revenue per available room in 2004 at the Resort/Hotel Properties as the economy and the travel industry continue to recover offset by the financial impact of Sonoma Mission Inn and Ventana Inn renovations in 2004.

RESIDENTIAL DEVELOPMENT SEGMENT

The following tables show the performance factors used by management to

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assess the operating performance of the Residential Development Segment. Information is provided for the Desert Mountain Residential Development Property and the CRDI Residential Development Properties, which represent the Company's significant investments in this Segment as of June 30, 2004.

Desert Mountain

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2004	2003
Residential Lot Sales	23	11
Average Sales Price per Lot (1)	\$683,000	\$652,000

(1) Includes equity golf membership

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2004	2003
Residential Lot Sales	39	24
Average Sales Price per Lot (1)	\$792,000	\$675,000

(1) Includes equity golf membership

38

Desert Mountain is in the latter stages of development and has primarily its premier lots remaining in inventory. An increase in lot sales, combined with higher average sales prices in 2004 compared to 2003, is expected to result in improved results in 2004.

CRDI

	FOR THE THREE MONTHS E
	2004
Residential Lot Sales	92
Residential Unit Sales	4
Residential Timeshare Units	2.87
Average Sales Price per Residential Lot	\$ 95,000
Average Sales Price per Residential Unit	\$1,030,000
Average Sales Price per Residential Equivalent Timeshare Unit	\$2,143,000

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FOR THE SIX MONTHS

2004

Residential Lot Sales	119
Residential Unit Sales	11
Residential Timeshare Units	3.42
Average Sales Price per Residential Lot	\$ 121,000
Average Sales Price per Residential Unit	\$1,015,000
Average Sales Price per Residential Equivalent Timeshare Unit	\$2,024,000

CRDI, which invests primarily in mountain resort residential real estate in Colorado and California and residential real estate in downtown Denver, Colorado, is highly dependent upon the national economy and customer demand. In 2004, management expects that CRDI will be primarily affected by product mix available at its Residential Development Properties as product inventory is developed in 2004 for delivery in 2005.

LIQUIDITY

The Company's primary sources of liquidity are cash flows from operations, its credit facility, return of capital from the Residential Development segment, and proceeds from asset sales and joint ventures. The Company believes cash flows from operations will be sufficient to offset normal operating expenses, as well as capital requirements (including property improvements, tenant improvements and leasing commissions) in 2004. The cash flow from the Residential Development segment is cyclical in nature and primarily focused in the last quarter of each year. The Company expects to meet any interim short falls in operating cash flow caused by this cyclicity through working capital draws under the credit facility. As of June 30, 2004, the Company had \$151.9 million in borrowing capacity remaining under its credit facility. However, net cash flows from operations are not anticipated to fully cover the projected dividends on the Company's common stock for the next 18 months. The Company expects to use return of capital from the Residential Development Segment, estimated at approximately \$85 million for 2004, and business initiatives including investment land sales and other income to cover the shortfall.

Through the sale of the Woodlands in December 2003, the issuance of preferred shares and additional financing of Temperature-Controlled Logistics this year, and planned additional leverage on Hughes Center assets, the Company has an additional \$260 million in liquidity to make new investments throughout 2004, of which \$63 million has been invested through June 30, 2004. Additionally, the Company continues to execute on its capital recycling program and has sold six office properties generating proceeds, net of selling costs, of \$94.2 million which were used to pay down a portion of the Bank of America Fund XII Term Loan and to reduce the amount outstanding under the credit facility.

RECENT DEVELOPMENTS

ASSET ACQUISITIONS

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OFFICE PROPERTIES

During January and February 2004, in accordance with the original purchase contract, the Company acquired an additional five Class A Office Properties and seven retail parcels located within Hughes Center in Las Vegas, Nevada from the Rouse Company. One of these Office Properties is owned through a joint venture in which the Company acquired a 67% interest. The remaining four Office Properties are wholly-owned by the Company. The Company acquired these five Office Properties and seven retail parcels for approximately \$175.3 million, funded by the Company's assumption of approximately \$85.4 million in mortgage loans and by a portion of the proceeds from the sale of the Company's interests in The Woodlands on December 31, 2003. The Company recorded the loans assumed at their fair value of approximately \$93.2 million, which includes \$7.8 million of premium. The five Office Properties are included in the Company's Office Segment.

On March 31, 2004, the Company acquired Dupont Centre, a 250,000 square foot Class A office property, located in the John Wayne Airport submarket of Irvine, California. The Company acquired the Office Property for approximately \$54.3 million, funded by a draw on the Company's credit facility and subsequently placed a \$35.5 million non-recourse first mortgage loan on the property. This Office Property is wholly-owned and included in the Company's Office Segment.

On May 10, 2004, the Company completed the purchase of the remaining Hughes Center Office Property in Las Vegas, Nevada for approximately \$18.3 million. The purchase was funded by a draw on the Company's credit facility. This Office Property is wholly-owned and included in the Company's Office Segment.

On August 6, 2004, the Company acquired Alhambra Plaza, a 318,000 square foot Class A Office Property, located in the Coral Gables submarket of Miami, Florida. The Company acquired the Office Property for approximately \$72.3 million, funded by the Company's assumption of \$45.0 million loan from Wachovia Bank and a draw on the Company's credit facility. The Office Property is wholly-owned and will be included in the Company's Office Segment.

UNDEVELOPED LAND

On March 1, 2004, in accordance with the agreement to acquire the Hughes Center Properties, the Company completed the purchase of two tracts of undeveloped land in Hughes Center from the Rouse Company for \$10.0 million. The purchase was funded by a \$7.5 million loan from the Rouse Company and a draw on the Company's credit facility.

ASSET DISPOSITIONS

On March 23, 2004, the Company completed the sale of the 1800 West Loop South Office Property in Houston, Texas. The sale generated proceeds, net of selling costs, of approximately \$28.2 million and a net gain of approximately \$0.2 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$13.9 million, net of minority interests, during the year ended December 31, 2003. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned.

On March 31, 2004, the Company sold its last remaining behavioral healthcare property. The sale generated proceeds, net of selling costs, of approximately \$2.0 million and a net loss of approximately \$0.3 million, net of minority interests. This property was wholly-owned.

On April 13, 2004, the Company completed the sale of the Liberty Plaza

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Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$10.8 million and a net loss of approximately \$0.2 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$3.6 million, net of minority interests, during the year ended December 31, 2003. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned.

On June 17, 2004, the Company completed the sale of the Ptarmigan Place Office Property in Denver, Colorado. The sale generated proceeds, net of selling costs, of approximately \$25.3 million and a net loss of approximately \$2.0 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$0.5 million, net of minority interests, during the quarter ended March 31, 2004. In addition, the Company completed the sale of approximately 3.0 acres of undeveloped land adjacent to Ptarmigan Place. The sale generated proceeds, net of selling costs, of approximately \$2.9 million and a net gain of approximately \$0.9 million. The proceeds from these sales were used to pay

40

down a portion of the Company's Bank of America Fund XII Term Loan. The property and adjacent land were wholly-owned.

On June 29, 2004, the Company completed the sale of the Addison Tower Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$8.8 million and a net gain of approximately \$0.2 million, net of minority interests. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned.

On July 2, 2004, the Company completed the sale of the 5050 Quorum Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$8.9 million and a loss of approximately \$0.1 million, net of minority interests. The Company previously recorded an impairment charge of approximately \$0.8 million, net of minority interests, during the quarter ended March 31, 2004. The proceeds from the sale were used primarily to pay down the Company's credit facility. This property was wholly-owned. The Company will continue to provide management and leasing services for this property.

On July 29, 2004, the Company completed the sale of the 12404 Park Central Office Property in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$9.3 million. During the three months ended June 30, 2004, the Company recorded an impairment charge of approximately \$0.4 million, net of minority interests. The Company previously recorded impairment charges totaling approximately \$3.6 million, net of minority interests, \$2.9 million during the year ended December 31, 2003 and \$0.7 million during the quarter ended March 31, 2004. The proceeds from the sale were used primarily to pay down the Bank of America Fund XII Term Loan. This property was wholly-owned. The Company will continue to provide management and leasing services for this property.

OTHER TRANSACTIONS

On June 28, 2004, the Company completed a transaction related to the Fountain Place Office Property with Crescent FP Investors, L.P., ("FP Investors"), a limited partnership that is owned 99.9% by LB FP L.L.C., an affiliate of Lehman Brothers Holding, Inc., (the affiliate is referred to as "Lehman"), and 0.1% by the Company. In the transaction, the Fountain Place Office Property was, for tax purposes, sold to FP Investors for \$168.2 million,

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including the assumption by FP Investors of a new \$90.0 million loan from Lehman Capital. The Company received net proceeds of approximately \$78.2 million. This transaction resulted in the completion of a reverse Section 1031 like-kind exchange associated with the Company's prior purchase of a portion of the Hughes Center office portfolio.

Included in the terms of this transaction is a provision which provides Lehman the unconditional right to require the Company to purchase Lehman's interest in FP Investors for an agreed upon fair value of \$79.9 million at any time until November 30, 2004. For GAAP purposes, under SFAS No. 66, "Accounting for Sales of Real Estate," this unconditional right, or contingency, results in the transaction requiring accounting associated with a financing transaction. As a result, no gain has been recorded on the transaction and the Company's accompanying financial statements continue to include the Office Property, related debt and operations until expiration of the contingency. The fair value of the contingency, \$79.9 million, is included in the "Accounts payable, accrued expenses and other liabilities" line item in the Company's Consolidated Balance Sheet at June 30, 2004.

Also on June 28, 2004, the Company paid off the \$220.0 million Deutsche Bank - CMBS loan with proceeds from the Fountain Place Office Property transaction and a draw on the Company's revolving credit facility. See Note 9, "Notes Payable and Borrowings Under Credit Facility," included in Item 1, "Financial Statements," for further information relating to the \$90.0 million loan with Lehman Capital, secured by the Fountain Place Office Property.

41

RESULTS OF OPERATIONS

The following table shows the Company's variance in dollars between the three and six months ended June 30, 2004 and 2003.

	TOTAL VARIANCE IN DOLLARS BETWEEN THE THREE MONTHS ENDED JUNE 30, (in millions) 2004 AND 2003	TOTAL VARIANCE IN DOLLARS BETWEEN THE SIX MONTHS ENDED JUNE 30, (in millions) 2004 AND 2003
REVENUE:		
Office Property	\$ 13.0	\$
Resort/Hotel Property	1.0	
Residential Development Property	(6.4)	
TOTAL PROPERTY REVENUE	\$ 7.6	\$
EXPENSE:		
Office Property real estate taxes	\$ (0.4)	\$
Office Property operating expenses	2.2	
Resort/Hotel Property expense	2.5	
Residential Development Property expense	(3.8)	

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TOTAL PROPERTY EXPENSE	0.5	
INCOME FROM PROPERTY OPERATIONS	\$ 7.1	\$
OTHER INCOME (EXPENSE):		
Income from investment land sales, net	\$ (0.7)	
Gain on joint venture of properties, net	--	\$
Interest and other income	1.8	
Corporate general and administrative	(1.1)	
Interest expense	(2.4)	
Amortization of deferred financing costs	(0.5)	
Extinguishment of debt	(1.0)	
Depreciation and amortization	(9.5)	
Impairment charges related to real estate assets	--	
Other expenses	0.6	
Equity in net income (loss) of unconsolidated companies:		
Office Properties	(1.1)	
Resort/Hotel Properties	(1.4)	
Residential Development Properties	(1.9)	
Temperature-Controlled Logistics Properties	(2.3)	
Other	(0.7)	
TOTAL OTHER INCOME (EXPENSE)	\$ (20.2)	\$
LOSS FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES	\$ (13.1)	\$
Minority interests	3.3	
Income tax benefit	2.3	
LOSS BEFORE DISCONTINUED OPERATIONS AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	\$ (7.5)	\$
Income from discontinued operations, net of minority interests	(0.9)	
Impairment charges related to real estate assets from discontinued operations, net of minority interests	0.4	
Loss on real estate from discontinued operations, net of minority interests	(2.0)	
Cumulative effect of a change in accounting principle	--	
NET (LOSS) INCOME	\$ (10.0)	\$
Series A Preferred Share distributions	(1.4)	
Series B Preferred Share distributions	--	
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	\$ (11.4)	\$

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COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2004 TO THE THREE MONTHS ENDED JUNE 30, 2003

PROPERTY REVENUES

Total property revenues increased \$7.6 million, or 3.5%, to \$227.6 million for the three months ended June 30, 2004, as compared to \$220.0 million for the three months ended June 30, 2003. The primary components of the increase in total property revenues are discussed below.

- o Office Property revenues increased \$13.0 million, or 10.9%, to \$131.8 million, primarily due to:
 - o an increase of \$12.0 million from the acquisitions of The Colonnade in August 2003, the Hughes Center Properties in December 2003 through May 2004, and Dupont Centre in March 2004;
 - o an increase of \$5.0 million in net lease termination fees; and
 - o an increase of \$0.6 million primarily resulting from third party management services and related direct expense reimbursements; partially offset by
 - o a decrease of \$4.7 million from the 54 consolidated Office Properties (excluding 2003 and 2004 acquisitions and properties held for sale) that the Company owned or had an interest in, primarily due to a decrease in full service weighted average rental rates, a decrease in recoveries due to expense reductions, and a decline in net parking revenue, partially offset by a 0.4 point increase in same-store average occupancy (from 85.7% to 86.1%).
- o Resort/Hotel Property revenues increased \$1.0 million, or 2.5%, to \$40.3 million, primarily due to:
 - o an increase of \$1.2 million at the Luxury and Destination Fitness Resorts, primarily Canyon Ranch Tucson and Canyon Ranch Lenox, related to a 3% increase in revenue per available room (from \$290 to \$299) as a result of a 10% increase in average daily rate (from \$444 to \$489).
- o Residential Development Property revenues decreased \$6.4 million, or 10.3%, to \$55.6 million, primarily due to:
 - o a decrease of \$17.3 million in CRDI revenues related to product mix in lots and units available for sale in 2004 versus 2003, primarily at the One Vendue project in Charleston, South Carolina which had sales in 2003, but none in 2004 as the project sold out in 2003; partially offset by
 - o an increase of \$8.9 million in real estate sales primarily due to increased lot sales at DMDC of 12 lots (from 11 to 23) and increased lot sales at MVDC of 10 lots (from 3 to 13 lots); and
 - o an increase of \$1.8 million in club revenue at DMDC and CRDI primarily due to increased membership levels at DMDC and the full impact in 2004 of the sale of Tahoe Club memberships at

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the Tahoe Mountain Resorts Property, which began selling memberships in mid-2003.

PROPERTY EXPENSES

Total property expenses increased \$0.5 million, or 0.3%, to \$148.0 million for the three months ended June 30, 2004, as compared to \$147.5 million for the three months ended June 30, 2003. The primary components of the variances in property expenses are discussed below.

- o Office Property expenses increased \$1.8 million, or 3.1%, to \$60.4 million, primarily due to:
 - o an increase of \$4.1 million from the acquisition of The Colonnade in August 2003, the Hughes Center Properties in December 2003 through May 2004 and Dupont Centre in March 2004; and
 - o an increase of \$0.4 million related to the cost of providing third party management services to joint venture properties, which is offset by increased third party fee income and direct expense reimbursements; partially offset by
 - o a decrease of \$2.6 million from the 54 consolidated Office Properties (excluding 2003 and 2004 acquisitions and properties held for sale) that the Company owned or had an interest in, primarily due to:
 - o \$1.9 million decrease in property taxes and insurance;
 - o \$1.5 million decrease in utilities expense; partially offset by
 - o \$0.4 million increase in administrative expenses.

43

- o Resort/Hotel Property expenses increased \$2.5 million, or 7.5%, to \$35.8 million, due to:
 - o an increase of \$1.9 million in operating expenses, general and administrative costs, and advertising at the Destination Fitness Resorts primarily related to increases in employee health insurance costs and an increase in occupancy of 5 percentage points at Canyon Ranch Tucson; and
 - o an increase of \$0.6 million in operating expenses at the resorts.
- o Residential Development Property expenses decreased \$3.8 million, or 6.8%, to \$51.8 million, primarily due to:
 - o a decrease of \$15.6 million primarily due to a reduction in cost of sales related to product mix in lots and units available for sale in 2004 versus 2003 at CRDI, primarily at the One Vendue project in Charleston, South Carolina which had sales in 2003, but none in 2004 as the project sold out

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in 2003; partially offset by

- o an increase of \$6.8 million in DMDC and MVDC cost of sales due to increased lot sales compared to 2003;
- o an increase of \$2.4 million in marketing expenses at certain CRDI projects; and
- o an increase of \$2.0 million in club operating expenses due to an increase in membership and restaurant addition at CRDI and the golf course additions at DMDC.

OTHER INCOME/EXPENSE

Total other expenses increased \$20.2 million, or 26.0%, to \$97.8 million for the three months ended June 30, 2004, compared to \$77.6 million for the three months ended June 30, 2003. The primary components of the increase in total other expenses are discussed below.

OTHER INCOME

Other income decreased \$6.3 million, or 87.7%, to \$1.0 million for the three months ended June 30, 2004, as compared to \$7.3 million for the three months ended June 30, 2003. The primary components of the decrease in other income are discussed below.

- o Interest and other income increased \$1.8 million primarily due to \$0.7 million of interest on U.S. Treasury and government sponsored agency securities purchased in December 2003 and January 2004 related to debt defeasance, \$0.5 million of dividends received on other marketable securities and a \$0.3 million increase in interest on certain notes resulting from note amendments in December 2003.
- o Equity in net income of unconsolidated companies decreased \$7.4 million, or 164.4%, to a \$2.9 million loss, primarily due to:
 - o a decrease of \$3.0 million in equity in net income (\$1.9 million attributable to Residential Development Properties and \$1.1 million to Office Properties) primarily due to net income recorded in 2003 for the Company's interests in the entities through which the Company held its interests in The Woodlands, which were sold in December 2003;
 - o a decrease of \$2.3 million in Temperature-Controlled Logistics Properties equity in net income primarily due to a decrease in rental revenues net of deferred rent and an increase in interest expense primarily attributable to the \$254.4 million financing with Morgan Stanley Mortgage Capital, Inc. in February 2004; and
 - o a decrease of \$1.4 million in Resort/Hotel Properties equity in net income primarily due to net income recorded in 2003 for the Company's interest in the Ritz-Carlton Hotel Property, which was sold in November 2003, and included a \$1.1 million payment which the Company received from the operator of the Resort/Hotel Property pursuant to the terms of the operating agreement because the property did not achieve the specified net operating income level.

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OTHER EXPENSES

Other expenses increased \$13.9 million, or 16.4%, to \$98.8 million for the three months ended June 30, 2004, as compared to \$84.9 million for the three months ended June 30, 2003. The primary components of the increase in other expenses are discussed below.

- o Depreciation expense increased \$9.5 million, or 28.9%, to \$42.4 million, primarily due to:
 - o \$7.6 million increase in Office Property depreciation expense, attributable to:
 - o \$3.2 million from the acquisitions of The Colonnade in August 2003 and the Hughes Center Properties in December 2003 through May 2004, and Dupont Centre in March 2004; and
 - o \$4.4 million due to an increase in leasehold improvements, lease commissions, building improvements, and accelerated depreciation of leasehold improvements and lease commissions upon lease terminations;
 - o \$1.5 million increase in Residential Development Property depreciation expense; and
 - o \$0.6 million increase in Resort/Hotel Property depreciation expense.
- o Interest expense increased \$2.4 million, or 5.6%, to \$45.4 million due to an increase of approximately \$273.0 million in the weighted average debt balance, partially offset by a 0.76 percentage point decrease in the weighted average interest rate (from 7.18% to 6.42%) primarily due to the refinancing and new financings of fixed rate debt at lower interest rates and the termination of \$400.0 million in cash flow hedges, which were replaced with \$400.0 million of cash flow hedges resulting in a 3.1 percentage point reduction in strike prices (from 6.6% to 3.5%).
- o Corporate general and administrative expense increased \$1.1 million, or 19.3%, to \$6.8 million primarily due to salary merit increases, cost increases of employee benefits and restricted stock compensation recorded in 2004.
- o Extinguishment of debt increased \$1.0 million due to the write off of deferred financing costs associated with the reduction of the Bank of America Fund XII Term Loan funded by proceeds from the sale of the Ptarmigan Place Office Property and adjacent land and the payoff of the \$220.0 million Deutsche Bank-CMBS Loan in June 2004 funded with proceeds from the Fountain Place Office Property transaction and a draw on the credit facility.
- o Amortization of deferred financing costs increased \$0.5 million, or 19.2%, to \$3.1 million primarily due to the addition of deferred financing costs related to debt restructuring and refinancing associated with the \$275.0 million secured loan with Bank of America and Deutsche Bank in January 2004.

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DISCONTINUED OPERATIONS

Income from discontinued operations on assets sold and held for sale decreased \$2.5 million, or 69.4%, to \$1.1 million, primarily due to:

- o a decrease of \$2.2 million, net of minority interests, due to an aggregate \$2.1 million loss on three Office Properties sold in 2004 compared to a \$0.1 million gain on one Office Property in 2003;
- o a decrease of \$0.9 million, net of minority interests, due to the reduction of net income associated with properties held for sale in 2004 compared to 2003;
- o a decrease of \$0.4 million, net of minority interests, due to the impairment of one Office Property in 2004; partially offset by
- o an increase of \$0.8 million, net of minority interests, due to impairments recorded in 2003 on behavioral healthcare properties.

45

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2004 TO THE SIX MONTHS ENDED JUNE 30, 2003

PROPERTY REVENUES

Total property revenues increased \$12.0 million, or 2.8%, to \$447.9 million for the six months ended June 30, 2004, as compared to \$435.9 million for the six months ended June 30, 2003. The primary components of the increase in total property revenues are discussed below.

- o Office Property revenues increased \$14.7 million, or 6.1%, to \$254.4 million, primarily due to:
 - o an increase of \$20.8 million from the acquisitions of The Colonnade in August 2003, the Hughes Center Properties in December 2003 through May 2004, and Dupont Centre in March 2004;
 - o an increase of \$4.2 million in net lease termination fees;
 - o an increase of \$1.6 million primarily resulting from third party management services and related direct expense reimbursements; partially offset by
 - o a decrease of \$11.2 million from the 54 consolidated Office Properties (excluding 2003 and 2004 acquisitions and properties held for sale) that the Company owned or had an interest in, primarily due to a decrease in full service weighted average rental rates, a decrease in recoveries due to expense reductions, and a decline in net parking revenues; and
 - o a decrease of \$0.8 million due to nonrecurring revenue earned in 2003.
- o Residential Development Property revenues decreased \$2.4 million, or 2.3%, to \$103.3 million, primarily due to:

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- o a decrease of \$22.6 million in CRDI revenues related to product mix in lots and units available for sale in 2004 versus 2003, primarily at the One Vendue project in Charleston, South Carolina which had sales in 2003, but none in 2004 as the project sold out in 2003, partially offset by the Old Greenwood project in Tahoe, California which had sales in 2004, but none in the six months ended June 30, 2003 as product was not available for sale until December 2003; partially offset by
- o an increase of \$17.1 million primarily due to increased sales of 15 lots (from 24 to 39) at DMDC and increased sales of 12 lots (from 4 to 16 lots) at MVDC; and
- o an increase of \$3.5 million in club revenue at DMDC and CRDI primarily due to increased membership levels at DMDC and the full impact in 2004 of the sale of Tahoe Club memberships at the Tahoe Mountain Resorts Property, which began selling memberships in mid-2003.

PROPERTY EXPENSES

Total property expenses increased \$0.7 million, or 0.2%, to \$287.4 million for the six months ended June 30, 2004, as compared to \$286.7 million for the six months ended June 30, 2003. The primary components of the variances in property expenses are discussed below.

- o Office Property expenses increased \$2.8 million, or 2.4%, to \$119.2 million, primarily due to:
 - o an increase of \$6.7 million from the acquisition of The Colonnade in August 2003, the Hughes Center Properties in December 2003 through May 2004 and Dupont Centre in March 2004; and
 - o an increase of \$0.7 million related to the cost of providing third party management services to joint venture properties, which is offset by increased third party fee income and direct expense reimbursements; partially offset by
 - o a decrease of \$4.0 million from the 54 consolidated Office Properties (excluding 2003 and 2004 acquisitions and properties held for sale) that the Company owned or had an interest in, primarily due to:
 - o \$3.5 million decrease in property taxes, insurance and legal fees;
 - o \$2.2 million decrease in building repairs and maintenance; partially offset by
 - o \$0.6 million increase in administrative expenses; and
 - o \$0.5 million increase in nonrecoverable leasing costs.
- o Resort/Hotel Property expenses increased \$2.6 million, or 3.5%, to \$75.9 million, primarily due to:
 - o an increase of \$3.6 million in operating expenses, general and administrative costs, and advertising at

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the Destination Fitness Resorts primarily related to increases in employee health insurance costs and an increase in occupancy of 2 percentage points at Canyon Ranch Tucson; offset by

- o a decrease of \$0.7 million in resort property operating and management fee expense related to a 6 percentage point decrease in occupancy (from 60% to 54%).

46

- o Residential Development Property expenses decreased \$4.7 million, or 4.8%, to \$92.3 million, primarily due to:
 - o a decrease of \$22.0 million primarily due to a reduction in cost of sales related to product mix in lots and units available for sale in 2004 versus 2003 at CRDI primarily at the One Vendue project in Charleston, South Carolina which had sales in 2003, but none in 2004 as the project sold out in 2003, partially offset by the Old Greenwood project in Tahoe, California which had sales in 2004, but none in the six months ended June 30, 2003 as product was not available for sale until December 2003; partially offset by
 - o an increase of \$10.1 million in DMDC and MVDC cost of sales due to increased lot sales compared to 2003;
 - o an increase of \$4.1 million in marketing expenses at certain CRDI projects; and
 - o an increase of \$3.5 million in club operating expenses due to an increase in membership and restaurant addition at CRDI and the golf course additions at DMDC.

OTHER INCOME/EXPENSE

Total other expenses increased \$31.1 million, or 19.3%, to \$192.1 million for the six months ended June 30, 2004, compared to \$161.0 million for the six months ended June 30, 2003. The primary components of the increase in total other expenses are discussed below.

OTHER INCOME

Other income decreased \$9.0 million, or 71.4%, to \$3.6 million for the six months ended June 30, 2004, as compared to \$12.6 million for the six months ended June 30, 2003. The primary components of the decrease in other income are discussed below.

- o Interest and other income increased \$3.1 million primarily due to \$1.4 million of interest on U.S. Treasury and government sponsored agency securities purchased in December 2003 and January 2004 related to debt defeasance, \$0.7 million of dividends received on other marketable securities and a \$0.5 million increase in interest on certain notes resulting from note amendments in December 2003.
- o Equity in net income of unconsolidated companies decreased \$11.3 million, or 137.8%, to a \$3.1 million loss, primarily due to:
 - o a decrease of \$4.7 million in Temperature-Controlled

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Logistics Properties equity in net income primarily due to a decrease in rental revenues net of deferred rent and an increase in interest expense primarily attributable to the \$254.4 million financing with Morgan Stanley Mortgage Capital, Inc. in February 2004;

- o a decrease of \$4.4 million equity in net income (\$2.8 million attributable to Residential Development Properties and \$1.6 million to Office Properties) primarily due to net income recorded in 2003 for the Company's interests in the entities through which the Company held its interests in The Woodlands, which were sold in December 2003; and
- o a decrease of \$2.4 million in Resort/Hotel Properties equity in net income primarily due to net income recorded in 2003 for the Company's interest in the Ritz-Carlton Hotel Property which was sold in November 2003 and included a \$1.1 million payment which the Company received from the operator of the Resort/Hotel Property pursuant to the terms of the operating agreement because the Property did not achieve the specified net operating income level.

OTHER EXPENSES

Other expenses increased \$22.2 million, or 12.8%, to \$195.7 million for the six months ended June 30, 2004, as compared to \$173.5 million for the six months ended June 30, 2003. The primary components of the increase in other expenses are discussed below.

- o Interest expense increased \$4.2 million, or 4.9%, to \$90.4 million due to an increase of approximately \$337.0 million in the weighted average debt balance, partially offset by a 0.75 percentage point decrease in the weighted average interest rate (from 7.31% to 6.56%) primarily due to the refinancing and new financings of fixed rate debt at lower interest rates and the termination of \$400.0 million in cash flow hedges, which were replaced with \$400.0 million of cash flow hedges resulting in a 3.1 percentage point reduction in strike prices (from 6.6% to 3.5%).
- o Extinguishment of debt increased \$2.9 million due to the write off of deferred financing costs associated with reduction of the Fleet Fund I and II Term Loan in January 2004, reduction of the Bank of America Fund XII Term

47

Loan funded by proceeds from the sale of Ptarmigan Place Office Property and adjacent land and the payoff of the \$220.0 million Deutsche Bank-CMBS Loan in June 2004 funded with proceeds from the Fountain Place Office Property transaction and a draw on the credit facility.

- o Corporate general and administrative expense increased \$2.1 million, or 18.1%, to \$13.7 million primarily due to salary merit increases, cost increases of employee benefits and restricted stock compensation recorded in 2004.
- o Depreciation expense increased \$13.1 million, or 19.1%, to \$81.6 million, primarily due to:

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- o \$10.1 million increase in Office Property depreciation expense, attributable to:
 - o \$5.9 million from the acquisitions of The Colonnade in August 2003 and the Hughes Center Properties in December 2003 through May 2004 and Dupont Centre in March 2004; and
 - o \$4.2 million due to an increase in leasehold improvements, lease commissions, building improvements, and accelerated depreciation of leasehold improvements and lease commissions upon lease terminations;
- o \$2.0 million increase in Residential Development Property depreciation expense; and
- o \$1.2 million increase in Resort/Hotel Property depreciation expense.
- o Amortization of deferred financing costs increased \$1.8 million, or 36.0%, to \$6.8 million primarily due to the addition of deferred financing costs related to debt restructuring and refinancing associated with the \$275.0 million secured loan with Bank of America and Deutsche Bank in January 2004.
- o Impairment charges decreased \$1.2 million primarily due to the \$1.2 million impairment of the North Dallas Athletic Club in the first quarter 2003.

DISCONTINUED OPERATIONS

Income from discontinued operations on assets sold and held for sale increased \$7.4 million, or 113.8%, to an income of \$0.9 million, primarily due to:

- o an increase of \$12.8 million, net of minority interests, due to the impairment of the 1800 West Loop South Office Property in 2003;
- o an increase of \$1.5 million, net of minority interests, due to impairments recorded in 2003 on the behavioral healthcare properties; partially offset by
- o a decrease of \$2.6 million, net of minority interests, due to the reduction of net income associated with properties held for sale in 2004 compared to 2003;
- o a decrease of \$2.4 million, net of minority interests, due to the impairments of three Office Properties in 2004; and
- o a decrease of \$1.8 million, net of minority interests, due to the loss on four Office Properties and one behavioral healthcare property sold in 2004.

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LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

FOR THE SIX MONTHS
ENDED JUNE 30, 2004

(in millions)

Cash provided by Operating Activities	\$	25.7
Cash used in Investing Activities		(135.0)
Cash provided by Financing Activities		88.3

Decrease in Cash and Cash Equivalents	\$	(21.0)
Cash and Cash Equivalents, Beginning of Period		78.0

Cash and Cash Equivalents, End of Period	\$	57.0
		=====

OPERATING ACTIVITIES

The Company's cash provided by operating activities of \$25.7 million is attributable to Property operations.

INVESTING ACTIVITIES

The Company's cash used in investing activities of \$135.0 million is primarily attributable to:

- o \$169.8 million purchase of U.S. Treasuries and government sponsored agency securities in connection with the defeasance of LaSalle Note II;
- o \$164.4 million for the acquisition of investment properties, primarily due to the acquisition of Hughes Center and Dupont Centre Office Properties;
- o \$46.7 million for revenue and non-revenue enhancing tenant improvement and leasing costs for Office Properties;
- o \$22.1 million for property improvements for rental properties, primarily attributable to non-recoverable building improvements for the Office Properties, renovations at Sonoma Mission Inn and Ventana Inn, and replacement of furniture, fixtures and equipment for the Resort/Hotel Properties;
- o \$17.3 million for development of amenities at the Residential Development Properties;
- o \$2.4 million of additional investment in Temperature-Controlled Logistics Properties;
- o \$1.9 million for development of investment properties; and
- o \$0.9 million of additional investment in unconsolidated Residential Development Properties.

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The cash used in investing activities is partially offset by:

- o \$113.3 million decrease in restricted cash, due primarily to decreased escrow deposits for the purchase of the Hughes Center Office Properties in January and February 2004;
- o \$90.8 million from return of investment in Temperature-Controlled Logistics Properties due primarily to the \$254.4 million of additional financing at the Temperature-Controlled Logistics Corporation;
- o \$78.8 million of proceeds from property sales, primarily due to the sale of the 1800 West Loop South, Liberty Plaza, Ptarmigan Place and Addison Tower Office Properties;
- o \$5.5 million of proceeds from defeasance investment maturities;
- o \$0.7 million from return of investment in unconsolidated Office Properties; and
- o \$0.6 million from return of investment in unconsolidated Resort/Hotel Properties.

FINANCING ACTIVITIES

The Company's cash provided by financing activities of \$88.3 million is primarily attributable to:

- o \$407.5 million of proceeds from other borrowings, primarily as a result of the new Bank of America Fund XII Term Loan secured by the Fund XII Properties, the new Lehman Capital Note secured by the Fountain Place Office Property, and the new Metropolitan Life Note VII secured by the Dupont Centre Office Property;
- o \$319.0 million of proceeds from borrowings under the Company's credit facility;
- o \$79.9 million of proceeds from the Fountain Place Office Property transaction;

49

- o \$71.0 million of net proceeds from issuance of Series A Preferred Shares;
- o \$47.2 million of proceeds from borrowings for construction costs for infrastructure development at the Residential Development Properties;
- o \$1.1 million of capital contributions from joint venture partners; and
- o \$0.4 million of net proceeds from the exercise of share options.

The cash provided by financing activities is partially offset by:

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- o \$372.8 million of payments under other borrowings, due primarily to the pay off of the Deutsche Bank-CMBS Loan, the pay down of the Fleet Fund I Term Loan and the pay down of the Bank of America Fund XII Term Loan;
- o \$325.5 million of payments under the Company's credit facility;
- o \$87.8 million of distributions to common shareholders and unitholders;
- o \$24.5 million of Residential Development Property note payments;
- o \$16.0 million of distributions to preferred shareholders;
- o \$6.1 million of debt financing costs primarily associated with the \$275 million Bank of America and Deutsche Bank Term Loan and the Lehman Capital Note;
- o \$3.9 million of capital distributions to joint venture partners; and
- o \$1.1 million of amortization of debt premiums.

LIQUIDITY REQUIREMENTS

DEBT FINANCING SUMMARY

The following tables show summary information about the Company's debt, including its share of unconsolidated debt, as of June 30, 2004. Additional information about the significant terms of the Company's debt financing arrangements and its unconsolidated debt is contained in Note 9, "Notes Payable and Borrowings under Credit Facility" and Note 8, "Investments in Unconsolidated Companies," of Item 1, "Financial Statements."

(in thousands)	TOTAL COMPANY DEBT	SHARE OF UNCONSOLIDATED DEBT	TOTAL
Fixed Rate Debt	\$ 1,799,628	\$ 317,138	\$ 2,116,766
Variable Rate Debt	911,021	167,304	1,078,325
Total Debt	\$ 2,710,649	\$ 484,442	\$ 3,195,091

Listed below are the aggregate principal payments by year required as of June 30, 2004. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	SECURED DEBT	UNSECURED DEBT	UNSECURED DEBT LINE OF CREDIT	TOTAL COMPANY DEBT
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2004	\$ 45,319	\$ --	\$ --	\$ 45,319
2005	370,526	--	232,500	603,026
2006	459,134	--	--	459,134
2007	109,888	250,000	--	359,888
2008	47,321	--	--	47,321
Thereafter	820,961	375,000	--	1,195,961
	-----	-----	-----	-----
	\$1,853,149	\$ 625,000	\$ 232,500	\$2,710,649
	=====	=====	=====	=====

- (1) Excludes effect of extension options on Bank of America Fund XII Term Loan and expected early payment of LaSalle Note I, JP Morgan Mortgage Note, or the Nomura Funding VI Note.

50

OFF-BALANCE SHEET ARRANGEMENTS - GUARANTEE COMMITMENTS

The FASB issued Interpretation 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requiring a guarantor to disclose its guarantees. The Company's guarantees in place as of June 30, 2004 are listed in the table below. For the guarantees on indebtedness, no triggering events or conditions are anticipated to occur that would require payment under the guarantees and management believes the assets associated with the loans that are guaranteed are sufficient to cover the maximum potential amount of future payments and therefore, would not require the Company to provide additional collateral to support the guarantees. The Company has not recorded a liability associated with these guarantees as they were entered into prior to the adoption of FIN 45.

DEBTOR	GUARANTEED AMOUNT OUTSTANDING AT JUNE 30, 2004	G
-----	-----	-----
	(in thousand)	
CRDI - Eagle Ranch Metropolitan District - Letter of Credit (1)	\$ 7,583	\$
Blue River Land Company, L.L.C. (2) (3)	2,162	
Main Street Partners, L.P. - Letter of Credit (2) (4)	4,250	
	-----	-----
Total Guarantees	\$ 13,995	\$
	=====	=====

- (1) The Company provides a \$7.6 million letter of credit to support the payment of interest and principal of the Eagle Ranch Metropolitan District Revenue Development Bonds.
- (2) See Note 8, "Investments in Unconsolidated Companies," for a description of the terms of this debt.
- (3) A fully consolidated entity of CRDI, of which CRDI owns 88.3%, provides

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a guarantee of 70% of the outstanding balance of up to a \$9.0 million loan to Blue River Land Company, L.L.C. There was approximately \$3.1 million outstanding at June 30, 2004 and the amount guaranteed was \$2.2 million.

- (4) The Company and its joint venture partner each provide separate Letters of Credit to guarantee repayment of up to \$4.3 million each of the Main Street Partners, L.P. loan.

OTHER COMMITMENTS AND CONTINGENCIES

See "Recent Developments" in this Item 2, for information on the Company's \$79.9 million contingent obligation related to the Fountain Place Office Property transaction.

The Company has a contingent obligation of approximately \$0.9 million related to a construction warranty matter. The Company believes it is probable that a significant amount would be recoverable through reimbursements from third parties.

51

CAPITAL EXPENDITURES

As of June 30, 2004, the Company had unfunded capital expenditures of approximately \$34.5 million relating to capital investments that are not in the ordinary course of operations of the Company's business segments. The table below specifies the Company's requirements for capital expenditures and its amounts funded as of June 30, 2004, and amounts remaining to be funded (future fundings classified between short-term and long-term capital requirements):

(in millions) PROJECT	TOTAL PROJECT COST(1)	AMOUNT FUNDED AS OF JUNE 30, 2004	AMOUNT REMAINING TO FUND
OFFICE SEGMENT			
Acquired Properties(3)	\$ 2.7	\$ (2.6)	\$ 0.1
Houston Center Shops Redevelopment(4)	11.6	(9.2)	2.4
RESIDENTIAL DEVELOPMENT SEGMENT			
Tahoe Mountain Club(5)	47.5	(40.0)	7.5
RESORT/HOTEL SEGMENT			
Canyon Ranch - Tucson Land - Construction Loan(6)	2.4	(0.7)	1.7
Sonoma Mission Inn - Rooms Remodel(7)	11.7	(11.7)	--
OTHER			
SunTx(8)	19.0	(11.7)	7.3
Purchase of AmeriCold Logistics (formerly "Crescent Spinco")(9)	15.5	--	15.5

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TOTAL	----- \$ 110.4 =====	----- \$ (75.9) =====	----- \$ 34.5 =====
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- (1) All amounts are approximate.
- (2) Reflects the Company's estimate of the breakdown between short-term and long-term capital expenditures.
- (3) The capital expenditures reflect the Company's ownership percentage of 30% for Five Post Oak Park Office Property.
- (4) Located within the Houston Center Office Property complex.
- (5) As of June 30, 2004, the Company had invested \$40.0 million in Tahoe Mountain Club, which includes the acquisition of land and development of a golf course and retail amenities. During 2004, the Company is developing a swim and fitness facility, clubhouse, and completing the golf course.
- (6) The Company has a \$2.4 million construction loan with the purchaser of the land, which will be secured by 9 developed lots and a \$0.4 million letter of credit.
- (7) The Sonoma Mission Inn rooms remodel was completed and all rooms were returned to service in July 2004.
- (8) This commitment is related to the Company's investment in a private equity fund and its general partner. The commitment is based on cash contributions and distributions and does not consider equity gains or losses.
- (9) The Company and COPI are assessing other alternatives for the sale of COPI's 40% interest in the tenant of the Temperature-Controlled Logistics properties, AmeriCold Logistics. At this time, the Company does not expect to spin-off to its shareholders a new entity that would purchase COPI's interest in AmeriCold Logistics.

In April 2004, the Company entered into agreements with Ritz-Carlton Hotel Company, L.L.C. to develop the first Ritz-Carlton hotel and condominium project in Dallas, Texas with development to commence upon reaching an acceptable level of pre-sales for the residences. The development plans include a Ritz-Carlton with approximately 216 hotel rooms and 70 residences. Construction on the development is anticipated to begin in the first quarter of 2005.

LIQUIDITY OUTLOOK

The Company expects to fund its short-term capital requirements of approximately \$30.7 million through a combination of net cash flow from operations and borrowings under the Company's credit facility or additional debt facilities. As of June 30, 2004, the Company had maturing debt obligations of \$547.0 million through June 30, 2005, consisting primarily of its credit facility, Fleet Fund I Term Loan and the Lehman Capital Note. The Company plans to refinance the credit facility and the Fleet Fund I Term Loan in 2004. The Lehman Capital Note is also expected to be refinanced. The remaining maturities consist primarily of normal principal amortization and will be met with cash flow from operations. In addition, \$38.1 million of debt relating to the

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Residential Developments is maturing within the next 12 months and will be retired with the sales of the corresponding land or units or will be refinanced.

The Company expects to meet its other short-term liquidity requirements, consisting of normal recurring operating expenses, principal and interest payment requirements, non-revenue enhancing capital expenditures and revenue enhancing capital expenditures (such as property improvements, tenant improvements and leasing costs), distributions to shareholders and unitholders, and unfunded expenses related to the COPI bankruptcy, primarily through cash flow provided by operating

52

activities. The Company expects to fund the remainder of these short-term liquidity requirements with borrowings under the Company's credit facility, return of capital from Residential Development Properties, proceeds from the sale of non-core investments, other business initiatives or the joint venture of Properties, and borrowings under additional debt facilities.

The Company's long-term liquidity requirements as of June 30, 2004 consist primarily of \$2.2 billion of debt maturing after June 30, 2005. The Company also has \$3.8 million of long-term capital expenditure requirements. The Company anticipates meeting these long-term maturity obligations primarily through refinancing maturing debt with long-term secured and unsecured debt and through other debt and equity financing alternatives as well as cash proceeds received from the sale or joint venture of Properties.

Debt and equity financing alternatives currently available to the Company to satisfy its liquidity requirements and commitments for material capital expenditures include:

- o Additional proceeds from the Company's Credit Facility under which the Company had up to \$151.9 million of borrowing capacity available as of June 30, 2004;
- o Additional proceeds from the refinancing of existing secured and unsecured debt;
- o Additional debt secured by existing underleveraged properties;
- o Issuance of additional unsecured debt; and
- o Equity offerings including preferred and/or convertible securities or joint ventures of existing properties.

The following factors could limit the Company's ability to utilize these financing alternatives:

- o The reduction in the operating results of the Properties supporting the Company's Credit Facility to a level that would reduce the availability of funds under the Credit Facility;
- o A reduction in the operating results of the Properties could limit the Company's ability to refinance existing secured and unsecured debt, or extend maturity dates or could result in an uncured or unwaived event of default;
- o The Company may be unable to obtain debt or equity financing on favorable terms, or at all, as a result of the financial condition of the Company or market conditions at the time the Company seeks

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additional financing;

- o Restrictions under the Company's debt instruments or outstanding equity may prohibit it from incurring debt or issuing equity on terms available under then-prevailing market conditions or at all; and
- o The Company may be unable to service additional or replacement debt due to increases in interest rates or a decline in the Company's operating performance.

The Company's portion of unconsolidated debt maturing through June 30, 2005 is \$74.4 million. The Company's portion of unconsolidated debt maturing after June 30, 2005 is \$410.0 million. Unconsolidated debt is the liability of the unconsolidated entity, is typically secured by that entity's property, and is non-recourse to the Company except where a guarantee exists.

EQUITY AND DEBT FINANCING

SERIES A PREFERRED OFFERING

On January 15, 2004, the Company completed an offering (the "January 2004 Series A Preferred Offering") of an additional 3,400,000 Series A Convertible Cumulative Preferred Shares (the "Series A Preferred Shares") at a \$21.98 per share price and with a liquidation preference of \$25.00 per share for aggregate total offering proceeds of approximately \$74.7 million. The Series A Preferred Shares are convertible at any time, in whole or in part, at the option of the holders, into common shares of the Company at a conversion price of \$40.86 per common share (equivalent to a conversion rate of 0.6119 common shares per Series A Preferred Share), subject to adjustment in certain circumstances. The Series A Preferred Shares have no stated maturity and are not subject to sinking fund or mandatory redemption. At any time, the Series A Preferred Shares may be redeemed, at the Company's option, by paying \$25.00 per share plus any accumulated accrued and unpaid distributions. Dividends on the additional Series A Preferred Shares are cumulative from November 16, 2003, and are payable quarterly in arrears on the fifteenth of February, May, August and November, commencing February 16, 2004. The annual fixed dividend on the Series A Preferred Shares is \$1.6875 per share.

Net proceeds to the Company from the January 2004 Series A Preferred Offering were approximately \$71.0 million after underwriting discounts, offering costs and dividends accrued on the shares up to the issuance date. The Company used the net proceeds to pay down the Company's credit facility.

53

DEBT FINANCING ARRANGEMENTS

The significant terms of the Company's primary debt financing arrangements existing as of June 30, 2004, are shown below:

DESCRIPTION (1)	MAXIMUM BORROWINGS	BALANCE OUTSTANDING AT JUNE 30, 2004	INTEREST RATE AT JUNE 30, 2004
-----	-----	-----	-----

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SECURED FIXED RATE DEBT:

(dollars in thousands)

AEGON Partnership Note (Greenway Plaza)	\$ 257,403	\$ 257,403	7.53
LaSalle Note I (Fund I)	233,460	233,460	7.83
JP Morgan Mortgage Note (Houston Center)	189,074	189,074	8.31
LaSalle Note II (Fund II Defeasance) (2)	158,539	158,539	7.79
Cigna Note (707 17th Street/Denver Marriott)	70,000	70,000	5.22
Mass Mutual Note (3800 Hughes) (3)	37,936	37,936	7.75
Bank of America Note (Colonnade)	38,000	38,000	5.53
Metropolitan Life Note V (Datran Center)	37,177	37,177	8.49
Metropolitan Life Note VII (Dupont Centre)	35,500	35,500	4.31
Allstate Note (3993 Hughes) (3)	25,864	25,864	6.65
Northwestern Life Note (301 Congress)	26,000	26,000	4.94
Metropolitan Life Note VI (3960 Hughes) (3)	24,363	24,363	7.71
Northwestern Life II (3980 Hughes) (3)	10,451	10,451	7.40
Woodmen of the World Note (Avallon IV)	8,500	8,500	8.20
Nomura Funding VI Note (Canyon Ranch - Lenox)	7,758	7,758	10.07
Construction, Acquisition and other obligations for various CRDI and Mira Vista projects	14,603	14,603	2.90 to 10.50
Subtotal/Weighted Average	\$ 1,174,628	\$ 1,174,628	7.41
UNSECURED FIXED RATE DEBT:			
The 2009 Notes	\$ 375,000	\$ 375,000	9.25
The 2007 Notes	250,000	250,000	7.50
Subtotal/Weighted Average	\$ 625,000	\$ 625,000	8.55
SECURED VARIABLE RATE DEBT:			
Bank of America Fund XII Term Loan (Fund XII) (4)	\$ 235,192	\$ 235,192	3.42
Fleet Fund I Term Loan (Fund I)	160,000	160,000	4.63
Lehman Capital Note (Fountain Place)	90,000	90,000	2.82
Fleet Term Loan (Distributions from Fund III, IV and V)	75,000	75,000	5.69
National Bank of Arizona (Desert Mountain)	37,580	34,951	4.00 to 5.00
FHI Finance Loan (Sonoma Mission Inn)	10,000	10,000	5.63
The Rouse Company (Hughes Center undeveloped land)	7,500	7,500	5.00
Wells Fargo Bank (3770 Hughes)	4,774	4,774	3.23
Construction, Acquisition and other obligations for various CRDI and Mira Vista projects	115,296	61,104	3.35 to 4.50
Subtotal/Weighted Average	\$ 735,342	\$ 678,521	4.03
UNSECURED VARIABLE RATE DEBT:			
Credit Facility	\$ 391,962	\$ 232,500 (5)	3.36
Subtotal/Weighted Average	\$ 391,962	\$ 232,500	3.36
TOTAL/WEIGHTED AVERAGE	\$ 2,926,932	\$ 2,710,649	6.48
AVERAGE REMAINING TERM			

- (1) For more information regarding the terms of the Company's debt financing arrangements, including properties securing the Company's secured debt and the method of calculation of the interest rate for the Company's variable rate debt, see Note 9, "Notes Payable and Borrowings under the Credit Facility," included in Item 1, "Financial Statements."
- (2) In December 2003, the Company defeased approximately \$8.7 million of this loan to release one of the Funding II Properties securing the loan by purchasing \$9.6 million in U.S. Treasuries and government sponsored agency securities to substitute as collateral. On January 15, 2004, the Company defeased approximately \$150.7 million to release the remainder of the Funding II properties by purchasing \$170.0 million in U.S. Treasuries and government sponsored agency securities. The earnings and principal maturity from these investments will pay the principal and interest associated with the LaSalle Note II.
- (3) Includes a portion of total premiums of \$7.7 million reflecting market value of debt acquired with purchase of Hughes Center portfolio.
- (4) This loan has one one-year extension option.
- (5) The outstanding balance excludes letters of credit issued under the credit facility of \$7.6 million.
- (6) The overall weighted average interest rate does not include the effect of the Company's cash flow hedge agreements. Including the effect of these agreements, the overall weighted average interest rate would have been 6.82%.

54

The Company is generally obligated by its debt agreements to comply with financial covenants, affirmative covenants and negative covenants, or some combination of these types of covenants. The financial covenants to which the Company is subject include, among others, leverage ratios, debt service coverage ratios and limitations on total indebtedness. The affirmative covenants to which the Company is subject under its debt agreements include, among others, provisions requiring the Company to comply with all laws relating to operation of any Properties securing the debt, maintain those Properties in good repair and working order, maintain adequate insurance and provide timely financial information. The negative covenants under the Company's debt agreements generally restrict the Company's ability to transfer or pledge assets or incur additional debt at a subsidiary level, limit the Company's ability to engage in transactions with affiliates and place conditions on the Company's or a subsidiary's ability to make distributions.

Failure to comply with covenants generally will result in an event of default under that debt instrument. Any uncured or unwaived events of default under the Company's loans can trigger an increase in interest rates, an acceleration of payment on the loan in default, and for the Company's secured debt, foreclosure on the property securing the debt, and could cause the credit facility to become unavailable to the Company. In addition, an event of default by the Company or any of its subsidiaries with respect to any indebtedness in excess of \$5.0 million generally will result in an event of default under the Credit Facility, 2007 Notes, 2009 Notes, Bank of America Fund XII Term Loan, the Fleet Fund I Term Loan and the Fleet Term Loan after the notice and cure periods for the other indebtedness have passed. As a result, any uncured or unwaived event of default could have an adverse effect on the Company's business, financial condition, or liquidity.

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The Company's debt facilities generally prohibit loan prepayment for an initial period, allow prepayment with a penalty during a following specified period and allow prepayment without penalty after the expiration of that period. During the six months ended June 30, 2004, there were no circumstances that required prepayment penalties or increased collateral related to the Company's existing debt.

On June 28, 2004, the Company paid off the \$220.0 million Deutsche Bank-CMBS loan with proceeds from the Fountain Place transaction and a draw on the Company's credit facility. See "Recent Developments," in this Item 2, for additional information regarding the Fountain Place transaction. The loan was secured by the Funding X Properties and Spectrum Center. In July 2004, the Company unwound the \$220.0 million interest rate cap with JP Morgan Chase that corresponded to this loan.

DEFEASANCE OF LASALLE NOTE II

In January 2004, the Company released the remaining properties in Funding II by reducing the Fleet Fund I and II Term Loan by \$104.2 million and purchasing an additional \$170.0 million of U.S. Treasury and government sponsored agency securities with an initial weighted average yield of 1.76%. The Company placed those securities into a collateral account for the sole purpose of funding payments of principal and interest on the remainder of the LaSalle Note II. The cash flow from the securities is structured to match the cash flow (principal and interest payments) required under the LaSalle Note II. The retirement of the Fleet loan and the purchase of the defeasance securities were funded through the \$275 million Bank of America Fund XII Term Loan. The collateral for the Bank of America loan is 10 of the 11 properties previously in the Funding II collateral pool, which are now held in Funding XII. The Bank of America loan is structured to allow the Company the flexibility to sell, joint venture or long-term finance these 10 assets over the next 36 months. The final Funding II property, Liberty Plaza, was moved to the Operating Partnership and subsequently sold in April 2004.

UNCONSOLIDATED DEBT ARRANGEMENTS

As of June 30, 2004, the total debt of the unconsolidated joint ventures and equity investments in which the Company has ownership interests was \$1.3 billion, of which the Company's share was \$484.4 million. The Company had guaranteed \$6.4 million of this debt as of June 30, 2004. Additional information relating to the Company's unconsolidated debt financing arrangements is contained in Note 8, "Investments in Unconsolidated Companies," of Item 1, "Financial Statements."

55

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative financial instruments to convert a portion of its variable rate debt to fixed rate debt and to manage its fixed to variable rate debt ratio. As of June 30, 2004, the Company had three cash flow hedge agreements which are accounted for in conformity with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment of FASB Statement No. 133."

The following table shows information regarding the Company's interest rate swaps designated as cash flow hedge agreements during the six months ended

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June 30, 2004, and additional interest expense and unrealized gains (losses) recorded in Accumulated Other Comprehensive Income ("OCI").

EFFECTIVE DATE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FAIR MARKET VALUE	ADDITIONAL INTEREST EXPENSE	CHANG UNREALIZ (LOSSES)
-----	-----	-----	-----	-----	-----	-----
(in thousands)						

4/18/00	\$100,000	4/18/04	6.76%	\$ --	\$ 1,712	\$
2/15/03	100,000	2/15/06	3.26%	(775)	1,082	
2/15/03	100,000	2/15/06	3.25%	(771)	1,081	
9/02/03	200,000	9/01/06	3.72%	(2,749)	2,649	
				-----	-----	-----
				\$ (4,295)	\$ 6,524	\$
				=====	=====	=====

In addition, two of the Company's unconsolidated companies have cash flow hedge agreements of which the Company's portion of change in unrealized gains reflected in OCI was approximately \$0.4 million for the six months ended June 30, 2004.

INTEREST RATE CAP

In March 2004, in connection with the Bank of America Fund XII Term Loan, the Company entered into a LIBOR interest rate cap struck at 6.00% for a notional amount of approximately \$206.3 million through August 31, 2004, \$137.5 million from September 1, 2004 through February 28, 2005, and \$68.8 million from March 1, 2005 through March 1, 2006. Simultaneously, the Company sold a LIBOR interest rate cap with the same terms. Since these instruments do not reduce the Company's net interest rate risk exposure, they do not qualify as hedges and changes to their respective fair values are charged to earnings as the changes occur. As the significant terms of these arrangements are the same, the effects of a revaluation of these instruments are expected to offset each other.

56

UNCONSOLIDATED INVESTMENTS

INVESTMENTS IN UNCONSOLIDATED COMPANIES

The following is a summary of the Company's ownership in significant unconsolidated joint ventures and investments as of June 30, 2004.

ENTITY	CLASSIFICATION
-----	-----
Main Street Partners, L.P.	Office (Bank One Center-Dallas)
Crescent Miami Center, L.L.C.	Office (Miami Center - Miami)
Crescent Five Post Oak Park L.P.	Office (Five Post Oak - Houston)
Crescent One BriarLake Plaza, L.P.	Office (BriarLake Plaza - Houston)
Crescent 5 Houston Center, L.P.	Office (5 Houston Center-Houston)

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Austin PT BK One Tower Office Limited Partnership	Office (Bank One Tower-Austin)
Houston PT Three Westlake Office Limited Partnership	Office (Three Westlake Park - Houston)
Houston PT Four Westlake Office Limited Partnership	Office (Four Westlake Park-Houston)
Vornado Crescent Carthage and KC Quarry, L.L.C.	Temperature-Controlled Logistics
Vornado Crescent Portland Partnership	Temperature-Controlled Logistics
Blue River Land Company, L.L.C.	Other
Canyon Ranch Las Vegas, L.L.C.	Other
EW Deer Valley, L.L.C.	Other
CR License, L.L.C.	Other
CR License II, L.L.C.	Other
SunTx Fulcrum Fund, L.P.	Other
SunTx Capital Partners, L.P.	Other
G2 Opportunity Fund, L.P. ("G2")	Other

- (1) The remaining 50% interest in Main Street Partners, L.P. is owned by Trizec Properties, Inc.
- (2) The remaining 60% interest in Crescent Miami Center, L.L.C. is owned by an affiliate of a fund managed by JP Morgan Fleming Asset Management, Inc.
- (3) The remaining 70% interest in Crescent Five Post Oak Park, L.P. is owned by an affiliate of General Electric Pension Fund Trust.
- (4) The remaining 70% interest in Crescent One BriarLake Plaza, L.P. is owned by affiliates of JP Morgan Fleming Asset Management, Inc.
- (5) The remaining 75% interest in Crescent 5 Houston Center, L.P. is owned by a pension fund advised by JP Morgan Fleming Asset Management, Inc.
- (6) The remaining 80% interest in each of Austin PT BK One Tower Office Limited Partnership, Houston PT Three Westlake Office Limited Partnership and Houston PT Four Westlake Office Limited Partnership is owned by an affiliate of General Electric Pension Fund Trust.
- (7) The remaining 44% in Vornado Crescent Carthage and KC Quarry, L.L.C. is owned by Vornado Realty Trust, L.P.
- (8) The remaining 60% interest in Vornado Crescent Portland Partnership is owned by Vornado Realty Trust, L.P.
- (9) The remaining 50% interest in Blue River Land Company, L.L.C. is owned by parties unrelated to the Company. Blue River Land Company, L.L.C. was formed to acquire, develop and sell certain real estate property in Summit County, Colorado.
- (10) Of the remaining 50% interest in Canyon Ranch Las Vegas, L.L.C., 35% is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties and 15% is owned by the Company through its investments in CR License II, L.L.C. Canyon Ranch Las Vegas, L.L.C. operates a Canyon Ranch spa in a hotel in Las Vegas.
- (11) The remaining 58.3% interest in EW Deer Valley, L.L.C. is owned by parties unrelated to the Company. EW Deer Valley, L.L.C. was formed to acquire, hold and dispose of its 3.3% ownership interest in Empire Mountain Village, L.L.C. Empire Mountain Village, L.L.C. was formed to acquire, develop and sell certain real estate property at Deer Valley Ski Resort next to Park City, Utah.

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- (12) The remaining 70% interest in CR License, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties. CR License, L.L.C. owns the licensing agreement related to certain Canyon Ranch trade names and trademarks.
- (13) The remaining 70% interest in CR License II, L.L.C. is owned by an affiliate of the management company of two of the Company's Resort/Hotel Properties. CR License II, L.L.C. and its wholly-owned subsidiaries provide management and development consulting services to a variety of entities in the hospitality, real estate, and health and wellness industries.
- (14) Of the remaining 76.5% of SunTx Fulcrum Fund, 37.1% is owned by SunTx Capital Partners, L.P. and the remaining 39.4% is owned by a group of individuals unrelated to the Company. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of acquisitions that offer the potential for substantial capital appreciation.
- (15) SunTx Capital Partners, L.P. is the general Partner of the SunTx Fulcrum Fund, L.P. The remaining 85.6% interest in SunTx Capital Partners, L.P. is owned by parties unrelated to the Company.
- (16) G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments. The remaining 87.5% interest in G2 is owned by Goff-Moore Strategic Partners, L.P. ("GMSPLP") and by parties unrelated to the Company. G2 is managed and controlled by an entity that is owned equally by GMSPLP and GMAC Commercial Mortgage Corporation ("GMACCM"). The ownership structure of GMSPLP consists of an approximately 86% limited partnership interest owned directly and indirectly by Richard E. Rainwater, Chairman of the Board of Trust Managers of the Company, and an approximately 14% general partnership interest, of which approximately 6% is owned by Darla Moore, who is married to Mr. Rainwater, and approximately 6% is owned by John C. Goff, Vice-Chairman of the Company's Board of Trust Managers and Chief Executive Officer of the Company. The remaining approximately 2% general partnership interest is owned by unrelated parties.

57

TEMPERATURE-CONTROLLED LOGISTICS SEGMENT

AmeriCold Logistics, a limited liability company owned 60% by Vornado Operating L.P. and 40% by a subsidiary of Crescent Operating, Inc. ("COPI"), as sole lessee of the Temperature-Controlled Logistics Properties, leases the Temperature-Controlled Logistics Properties from the Temperature-Controlled Logistics Corporation under three triple-net master leases, as amended. The Company has no interest in COPI or AmeriCold Logistics. On March 2, 2004, the Temperature-Controlled Logistics Corporation and AmeriCold Logistics amended the leases to further extend the deferred rent period to December 31, 2005, from December 31, 2004. The parties previously extended the deferred rent period to December 31, 2004 from December 31, 2003, on March 7, 2003.

Under terms of the leases, AmeriCold Logistics elected to defer \$26.9 million of the total \$78.9 million of rent payable for the six months ended June 30, 2004. The Company's share of the deferred rent was \$10.8 million. The Company recognizes rental income from the Temperature-Controlled Logistics Properties when earned and collected and has not recognized the \$10.8 million of deferred rent in equity in net income of the Temperature-Controlled Logistics Properties for the six months ended June 30, 2004. As of June 30, 2004, the Temperature-Controlled Logistics Corporation's deferred rent and valuation allowance from AmeriCold Logistics were \$109.3 million and \$101.2 million,

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respectively, of which the Company's portions were \$43.7 million and \$40.5 million, respectively.

As a result of the continuing inability of AmeriCold Logistics to pay the full amount of the rent due under the leases without deferral elections, the Company anticipates that the Temperature-Controlled Logistics Corporation may restructure the leases in 2004, although it is under no obligation to do so.

On February 5, 2004, the Temperature-Controlled Logistics Corporation completed a \$254.4 million mortgage financing with Morgan Stanley Mortgage Capital Inc., secured by 21 of its owned and seven of its leased temperature-controlled logistics properties. The loan matures in April 2009, bears interest at LIBOR plus 295 basis points (with a LIBOR floor of 1.5% with respect to \$54.4 million of the loan) and requires principal payments of \$5.0 million annually. The net proceeds to the Temperature-Controlled Logistics Corporation were approximately \$225.0 million, after closing costs and the repayment of approximately \$12.9 million in existing mortgages. On February 6, 2004, the Temperature-Controlled Logistics Corporation distributed cash of approximately \$90.0 million to the Company.

SIGNIFICANT ACCOUNTING POLICIES

CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of financial condition and results of operations is based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company evaluates its assumptions and estimates on an ongoing basis. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities where that information is available from other sources. Certain estimates are particularly sensitive due to their significance to the financial statements. Actual results may differ significantly from management's estimates.

The Company believes that the most significant accounting policies that involve the use estimates and assumptions as to future uncertainties and, therefore, may result in actual amounts that differ from estimates are the following:

- o Impairments,
- o Acquisition of operating properties,
- o Relative sales method and percentage of completion (Residential Development entities),
- o Gain recognition on sale of real estate assets,
- o Consolidation of variable interest entities, and
- o Allowance for doubtful accounts.

IMPAIRMENTS. Real estate and leasehold improvements are classified as long-lived assets held for sale or long-lived assets to be held and used. In accordance with SFAS No. 144, the Company records assets held for sale at the lower of carrying value or sales price less costs to sell. For assets classified as held and used, these assets are tested for recoverability when events or changes in circumstances indicate that the estimated carrying amount may not be recoverable. An impairment loss is recognized when expected undiscounted future cash flows from a Property is less than the carrying value of the Property. The Company's estimates of cash flows of the Properties requires the Company to make

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assumptions related to future rental rates, occupancies, operating expenses, the ability of the Company's tenants to perform pursuant to their lease obligations and proceeds to be generated from the eventual sale of the Company's Properties. Any changes in estimated

58

future cash flows due to changes in the Company's plans or views of market and economic conditions could result in recognition of additional impairment losses.

If events or circumstances indicate that the fair value of an investment accounted for using the equity method has declined below its carrying value and the Company considers the decline to be "other than temporary," the investment is written down to fair value and an impairment loss is recognized. The evaluation of impairment for an investment would be based on a number of factors, including financial condition and operating results for the investment, inability to remain in compliance with provisions of any related debt agreements, and recognition of impairments by other investors. Impairment recognition would negatively impact the recorded value of our investment and reduce net income.

ACQUISITION OF OPERATING PROPERTIES. The Company allocates the purchase price of acquired properties to tangible and identified intangible assets acquired based on their fair values in accordance with SFAS No. 141, "Business Combinations."

In making estimates of fair value for purposes of allocating purchase price, management utilizes sources, including, but not limited to, independent value consulting services, independent appraisals that may be obtained in connection with financing the respective property, and other market data. Management also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

The aggregate value of the tangible assets acquired is measured based on the sum of (i) the value of the property and (ii) the present value of the amortized in-place tenant improvement allowances over the remaining term of each lease. Management's estimates of the value of the property are made using models similar to those used by independent appraisers. Factors considered by management in its analysis include an estimate of carrying costs such as real estate taxes, insurance, and other operating expenses and estimates of lost rentals during the expected lease-up period assuming current market conditions. The value of the property is then allocated among building, land, site improvements, and equipment. The value of tenant improvements is separately estimated due to the different depreciable lives.

The aggregate value of intangible assets acquired is measured based on the difference between (i) the purchase price and (ii) the value of the tangible assets acquired as defined above. This value is then allocated among above-market and below-market in-place lease values, costs to execute similar leases (including leasing commissions, legal expenses and other related expenses), in-place lease values and customer relationship values.

Above-market and below-market in-place lease values for acquired properties are calculated based on the present value (using a market interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining

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non-cancelable term of the lease for above-market leases and the initial term plus the term of the below-market fixed rate renewal option, if any, for below-market leases. The Company performs this analysis on a lease by lease basis. The capitalized above-market lease values are amortized as a reduction to rental income over the remaining non-cancelable terms of the respective leases. The capitalized below-market lease values are amortized as an increase to rental income over the initial term plus the term of the below-market fixed rate renewal option, if any, of the respective leases.

Management estimates costs to execute leases similar to those acquired at the property at acquisition based on current market conditions. These costs are recorded based on the present value of the amortized in-place leasing costs on a lease by lease basis over the remaining term of each lease.

The in-place lease values and customer relationship values are based on management's evaluation of the specific characteristics of each customer's lease and the Company's overall relationship with that respective customer. Characteristics considered by management in allocating these values include the nature and extent of the Company's existing business relationships with the customer, growth prospects for developing new business with the customer, the customer's credit quality, and the expectation of lease renewals, among other factors. The in-place lease value and customer relationship value are both amortized to expense over the initial term of the respective leases and projected renewal periods, but in no event does the amortization period for the intangible assets exceed the remaining depreciable life of the building.

Should a tenant terminate its lease, the unamortized portion of the in-place lease value and the customer relationship value and above-market and below-market in-place lease values would be charged to expense.

RELATIVE SALES METHOD AND PERCENTAGE OF COMPLETION. The Company uses the accrual method to recognize earnings from the sale of Residential Development Properties when a third-party buyer had made an adequate cash down payment and has attained the attributes of ownership. If a sale does not qualify for the accrual method of recognition,

deferral methods are used as appropriate including the percentage-of-completion method. In certain cases, when the Company receives an inadequate cash down payment and takes a promissory note for the balance of the sales price, revenue recognition is deferred until such time as sufficient cash is received to meet minimum down payment requirements. The cost of residential property sold is defined based on the type of product being purchased. The cost of sales for residential lots is generally determined as a specific percentage of the sales revenues recognized for each Residential Development project. The percentages are based on total estimated development costs and sales revenue for each Residential Development project. These estimates are revised annually and are based on the then-current development strategy and operating assumptions utilizing internally developed projections for product type, revenue and related development costs. The cost of sale for residential units (such as townhomes and condominiums) is determined using the relative sales value method. If the residential unit has been sold prior to the completion of infrastructure cost, and those uncompleted costs are not significant in relation to total costs, the full accrual method is utilized. Under this method, 100% of the revenue is recognized, and a commitment liability is established to reflect the allocated estimated future costs to complete the residential unit. If the Company's estimates of costs or the percentage of completion is incorrect, it could result in either an increase or decrease in cost of sales expense or revenue recognized

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and therefore, an increase or decrease in net income.

GAIN RECOGNITION ON SALE OF REAL ESTATE ASSETS. The Company performs evaluations of each real estate sale to determine if full gain recognition is appropriate in accordance with SFAS No. 66, "Accounting for Sales of Real Estate." The application of SFAS No. 66 can be complex and requires the Company to make assumptions including an assessment of whether the risks and rewards of ownership have been transferred, the extent of the purchaser's investment in the property being sold, whether the Company's receivables, if any, related to the sale are collectible and are subject to subordination, and the degree of the Company's continuing involvement with the real estate asset after the sale. If full gain recognition is not appropriate, the Company accounts for the sale under an appropriate deferral method.

CONSOLIDATION OF VARIABLE INTEREST ENTITIES. On January 15, 2003, the FASB approved the issuance of Interpretation 46, "Consolidation of Variable Interest Entities," ("FIN 46"), an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." In December 2003, the FASB issued FIN 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), which amended FIN 46. Under FIN 46R, consolidation requirements are effective immediately for new Variable Interest Entities ("VIEs") created after January 31, 2003. The consolidation requirements apply to existing VIEs for financial periods ending after March 15, 2004, except for special purpose entities which had to be consolidated by December 31, 2003. VIEs are generally a legal structure used for business enterprises that either do not have equity investors with voting rights, or have equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of the new guidance is to improve reporting by addressing when a company should include in its financial statements the assets, liabilities and activities of other entities such as VIEs. FIN 46R requires VIEs to be consolidated by a company if the company is subject to a majority of the expected losses of the VIE's activities or entitled to receive a majority of the entity's expected residual returns or both.

The adoption of FIN 46R did not have a material impact to the Company's financial condition or results of operations. Due to the adoption of this Interpretation and management's assumptions in application of the guidelines stated in the Interpretation, the Company has consolidated GDW LLC, a subsidiary of DMDC, as of December 31, 2003 and Elijah Fulcrum Fund Partners, L.P. ("Elijah") as of January 1, 2004. Elijah is a limited partnership whose purpose is to invest in the SunTx Fulcrum Fund, L.P. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of acquisitions that offer the potential for substantial capital appreciation. While it was determined that one of the Company's unconsolidated joint ventures, Main Street Partners, L.P., and its investments in Canyon Ranch Las Vegas, L.L.C., CR License, L.L.C. and CR License II, L.L.C. ("Canyon Ranch Entities") are VIEs under FIN 46R, the Company is not the primary beneficiary and is not required to consolidate these entities under other GAAP. The Company's maximum exposure to loss is limited to its equity investment of approximately \$52.0 million in Main Street Partners, L.P. and \$5.1 million in the Canyon Ranch Entities at June 30, 2004.

In connection with the Hughes Center acquisition, the Company entered into two separate exchange agreements with a third party intermediary. The first exchange agreement includes two parcels of undeveloped land and the second exchange agreement includes the 3930 Hughes Parkway Office Property. Both agreements were for a maximum term of 180 days and allow the Company to pursue favorable tax treatment on other properties sold by the Company within this period. During the 180-day periods, which will end on August 28, 2004 and November 6, 2004, respectively, the third party intermediary is the legal owner of the properties, although the Company controls the properties, retains all of the economic benefits and risks associated with these properties and indemnifies the third party intermediary and, therefore, the Company fully consolidates

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these properties. The Company will take legal ownership of the properties no later than on the expiration of the 180-day period.

Further, in connection with the Hughes Center acquisition, the Company entered into an exchange agreement with a third party intermediary for six of the Office Properties and the nine retail parcels. This agreement was for a maximum term

60

of 180 days and allowed the Company to pursue favorable tax treatment on other properties sold by the Company within this period. During the 180-day period, which ended on June 28, 2004, the third party intermediary was the legal owner of the properties, although the Company controlled the properties, retained all of the economic benefits and risks associated with these properties and indemnified the third party intermediary and, therefore, the Company fully consolidated these properties. On June 28, 2004, the Company took legal ownership of the Office Properties.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company's accounts receivable balance is reduced by an allowance for amounts that may become uncollectible in the future. The Company's receivable balance is composed primarily of rents and operating cost recoveries due from its tenants. The Company also maintains an allowance for deferred rent receivables which arise from the straight-lining of rents. The allowance for doubtful accounts is reviewed at least quarterly for adequacy by reviewing such factors as the credit quality of the Company's tenants, any delinquency in payment, historical trends and current economic conditions. If the assumptions regarding the collectibility of accounts receivable prove incorrect, the Company could experience write-offs in excess of its allowance for doubtful accounts, which would result in a decrease in net income.

ADOPTION OF NEW ACCOUNTING STANDARD

EITF 03-1. At the March 17-18, 2004 meeting, consensus was reached by the FASB Emerging Issues Task Force on EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The Consensus applies to investments in debt and equity securities within the scope of SFAS Nos. 115, "Accounting for Certain Investments in Debt and Equity Securities," and 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." It also applies to investments in equity securities that are both outside SFAS No. 115's scope and not accounted for under the equity method. The Task Force reached a consensus that certain quantitative and qualitative disclosures should be required for securities that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The new impairment guidance creates a model that calls for many judgments and additional evidence gathering in determining whether or not securities are other-than-temporarily impaired and lists some of these impairment indicators. The impairment accounting guidance is effective for periods beginning after June 15, 2004 and the disclosure requirements for annual reporting periods are effective for periods ending after June 15, 2004. The Company adopted EITF 03-1 effective July 1, 2004 and expects no impact on the Company's financial condition or its results of operations.

61

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FUNDS FROM OPERATIONS

FFO, as used in this document, means:

- o Net Income (Loss) - determined in accordance with GAAP;
- o excluding gains (or losses) from sales of depreciable operating property;
- o excluding extraordinary items (as defined by GAAP);
- o plus depreciation and amortization of real estate assets; and
- o after adjustments for unconsolidated partnerships and joint ventures.

The Company calculates FFO available to common shareholders - diluted in the same manner, except that Net Income (Loss) is replaced by Net Income (Loss) Available to Common Shareholders and the Company includes the effect of operating partnership unitholder minority interests.

The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative measure of performance and liquidity of an equity REIT to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. The Company considers FFO available to common shareholders - diluted and FFO appropriate measures of performance for an equity REIT and for its investment segments. However, FFO available to common shareholders - diluted and FFO should not be considered an alternative to net income determined in accordance with GAAP as an indication of the Company's operating performance.

The aggregate cash distributions paid to common shareholders and unitholders for the six months ended June 30, 2004 and 2003 were \$87.8 million and \$87.7 million, respectively. The Company reported FFO available to common shareholders before impairments charges related to real estate assets - diluted of \$58.6 million and \$77.9 million, for the six months ended June 30, 2004 and 2003, respectively. The Company reported FFO available to common shareholders after impairments charges related to real estate assets - diluted of \$55.7 million and \$59.8 million, for the six months ended June 30, 2004 and 2003, respectively.

An increase or decrease in FFO available to common shareholders - diluted does not necessarily result in an increase or decrease in aggregate distributions because the Company's Board of Trust Managers is not required to increase distributions on a quarterly basis unless necessary for the Company to maintain REIT status. However, the Company must distribute 90% of its REIT taxable income (as defined in the Code). Therefore, a significant increase in FFO available to common shareholders - diluted will generally require an increase in distributions to shareholders and unitholders although not necessarily on a proportionate basis.

Accordingly, the Company believes that to facilitate a clear understanding of the consolidated historical operating results of the Company, FFO available to common shareholders - diluted should be considered in conjunction with the Company's net income and cash flows reported in the consolidated financial statements and notes to the financial statements. However, the Company's measure of FFO available to common shareholders - diluted may not be comparable to similarly titled measures of other REITs because these REITs may apply the definition of FFO in a different manner than the Company.

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(in thousands)

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR
	2004	2003	
Net (loss) income	\$ (9,483)	\$ 522	\$
Adjustments to reconcile net (loss) income to funds from operations available to common shareholders - diluted:			
Depreciation and amortization of real estate assets	38,382	33,099	
Loss on property sales, net	2,437	479	
Impairment charges related to real estate assets and assets held for sale	500	990	
Adjustment for investments in unconsolidated companies:			
Office Properties	2,497	2,596	
Resort/Hotel Properties	--	355	
Residential Development Properties	629	(512)	
Temperature-Controlled Logistics Properties	5,785	5,486	
Other	--	(104)	
Unitholder minority interest	(1,700)	105	
Series A Preferred Share distributions	(5,991)	(4,556)	
Series B Preferred Share distributions	(2,019)	(2,019)	
Funds from operations available to common shareholders before impairment charges related to real estate assets - diluted(1)	\$ 31,037	\$ 36,441	\$
Impairment charges related to real estate assets	(500)	(990)	
Funds from operations available to common shareholders after impairment charges related to real estate assets - diluted(1)	\$ 30,537	\$ 35,451	\$
Investment Segments:			
Office Properties	\$ 75,326	\$ 69,555	\$
Resort/Hotel Properties	9,991	12,356	
Residential Development Properties	5,168	5,705	
Temperature-Controlled Logistics Properties	3,078	5,079	
Other:			
Corporate general and administrative	(6,794)	(5,729)	
Interest expense	(45,429)	(43,073)	
Series A Preferred Share distributions	(5,991)	(4,556)	
Series B Preferred Share distributions	(2,019)	(2,019)	
Other(2)	(2,293)	(877)	
Funds from operations available to common shareholders before impairment charges related to real estate assets - diluted(1)	\$ 31,037	\$ 36,441	\$
Impairment charges related to real estate assets	(500)	(990)	
Funds from operations available to common shareholders after impairment charges related to real estate assets - diluted(1)	\$ 30,537	\$ 35,451	\$
Basic weighted average shares	99,022	99,170	
Diluted weighted average shares and units(3)	116,865	116,932	

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- (1) To calculate basic funds from operations exclude unitholder minority interest.
- (2) Includes interest and other income, income/loss from other unconsolidated companies, other expenses, depreciation and amortization of non-real estate assets and amortization of deferred financing costs.
- (3) See calculations for the amounts presented in the reconciliation following this table.

63

The following schedule reconciles the Company's basic weighted average shares to the diluted weighted average shares/units presented above:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE S
(shares/units in thousands)	2004	2003	2004
Basic weighted average shares:	99,022	99,170	99
Add: Weighted average units	17,729	17,749	17
Restricted shares and share and unit options	114	13	
Diluted weighted average shares and units	116,865	116,932	116

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

No material changes in the Company's market risk occurred from December 31, 2003 through June 30, 2004. Information regarding the Company's market risk at December 31, 2003 is contained in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e) promulgated under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2004, the Company carried out an evaluation, under the

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supervision and with the participation of the Company's management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and its Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level.

During the three months ended June 30, 2004, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

64

PART II

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the three months ended June 30, 2004, the Company issued an aggregate of 18,072 common shares to holders of Operating Partnership units in exchange for 9,036 units. The issuances of common shares were exempt from registration as private placements under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Company has registered the resale of such common shares under the Securities Act.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of shareholders of the Company was held on June 28, 2004.

Two proposals were submitted to a vote of shareholders as follows:

- (1) The shareholders approved the election of the following individuals as trust managers of the Company:

Name ----	For ---	Withheld -----
Dennis H. Alberts	90,195,475	1,994,297
Terry N. Worrell	90,445,560	1,692,212

The terms of office of the following trust managers continued after the meeting:

Richard E. Rainwater
John C. Goff
Anthony M. Frank
William F. Quinn
Paul E. Rowsey, III
Robert W. Stallings

- (2) The shareholders approved, with 89,592,150 affirmative votes, 2,441,002 negative votes and 104,619 abstentions, the proposal to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2004.

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

The exhibits required by this item are set forth on the Exhibit Index attached hereto.

(b) Reports on Form 8-K

None.

65

SIGNATURES

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

CRESCENT REAL ESTATE EQUITIES COMPANY
(Registrant)

By /s/ John C. Goff

Date: August 6, 2004

John C. Goff
Vice-Chairman of the Board and
Chief Executive Officer

By /s/ Jerry R. Crenshaw, Jr.

Date: August 6, 2004

Jerry R. Crenshaw, Jr.
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)

66

INDEX TO EXHIBITS

EXHIBIT
NUMBER

DESCRIPTION OF EXHIBIT

3.01

Restated Declaration of Trust of Crescent Real Estate Equities
amended (filed as Exhibit No. 3.1 to the Registrant's Current
8-K filed April 25, 2002 (the "April 2002 8-K") and incorporated
reference)

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3.02	Second Amended and Restated Bylaws of Crescent Real Estate E (filed as Exhibit No. 3.02 to the Registrant's Quarterly Rep the quarter ended June 30, 2003 and incorporated herein by r
4.01	Form of Common Share Certificate (filed as Exhibit No. 4.03 Registration Statement on Form S-3 (File No. 333-21905) and by reference)
4.02	Statement of Designation of 6-3/4% Series A Convertible Cumu Shares of Crescent Real Estate Equities Company dated Februa Exhibit No. 4.07 to the Registrant's Annual Report on Form 1 year ended December 31, 1997 and incorporated herein by refe
4.03	Form of Certificate of 6-3/4% Series A Convertible Cumulativ Crescent Real Estate Equities Company (filed as Exhibit No. Registrant's Registration Statement on Form 8-A/A filed on F incorporated by reference)
4.04	Statement of Designation of 6-3/4% Series A Convertible Cumu Shares of Crescent Real Estate Equities Company dated April Exhibit No. 4.1 to the April 2002 8-K and incorporated herein
4.05	Statements of Designation of 6-3/4% Series A Convertible Cum of Crescent Real Estate Equities Company dated January 14, 2 No. 4.1 to the Registrant's Current Report on Form 8-K filed "January 2004 8-K") and incorporated herein by reference)
4.06	Form of Global Certificate of 6-3/4 Series A Convertible Cum Shares of Crescent Real Estate Equities Company (filed as Ex January 2004 8-K and incorporated herein by reference)
4.07	Statement of Designation of 9.50% Series B Cumulative Redeem of Crescent Real Estate Equities Company dated May 13, 2002 2 to the Registrant's Form 8-A dated May 14, 2002 (the "Form incorporated herein by reference)
4.08	Form of Certificate of 9.50% Series B Cumulative Redeemable Crescent Real Estate Equities Company (filed as Exhibit No. incorporated herein by reference)
*4	Pursuant to Regulation S-K Item 601 (b) (4) (iii), the Regis agrees, upon request, to furnish to the Securities and Excha of instruments defining the rights of holders of long-term d
10.01	Third Amended and Restated Agreement of Limited Partnership Estate Equities Limited Partnership, dated as of January 2, (filed herewith)
31.01	Certifications of Chief Executive Officer and Chief Financia Rule 13a - 14(a) as adopted pursuant to Section 302 of the S 2002 (filed herewith)
32.01	Certifications of Chief Executive Officer and Chief Financia 18 U.S.C. Section 350 as adopted pursuant to Section 906 of Act of 2002 (filed herewith)