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Current and deferred income taxes

(6,796) (2,932)

Other assets

(9,794) (18,455)

Accounts payable, accrued expenses and other liabilities

33,387 41,814

Net cash used in operating activities

\$(102,687) \$(5,331)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from property sales

\$24,335 \$236,572

Proceeds from sale of investment in unconsolidated company and related property sales

34,313

Proceeds from joint venture partners

144,193

Acquisition of investment properties

(30,675) (186,901)

Development of investment properties

(107,623) (49,177)

Property improvements Office Properties

(9,590) (8,080)

Property improvements Resort/Hotel Properties

(19,785) (5,076)

Tenant improvement and leasing costs Office Properties

(46,849) (50,719)

Resort Residential Development Properties investments

(18,927) (23,470)

Decrease (increase) in restricted cash and cash equivalents

8,913 (3,160)

Purchases of defeasance investments

(115,710)

Proceeds from defeasance investment maturities and other securities

172,845 20,430

Return of investment in unconsolidated companies

21,988 21,777

Investment in unconsolidated companies

(20,496) (14,131)

Increase in notes receivable

(5,770) (67,479)

Net cash provided by (used in) investing activities  
 \$2,679 \$(100,931)

CASH FLOWS FROM FINANCING ACTIVITIES:

Debt financing costs  
 \$(3,785) \$(9,867)  
 Borrowings under Credit Facility  
 284,000 550,300  
 Payments under Credit Facility  
 (217,000) (519,800)  
 Notes payable proceeds  
 233,201 370,026  
 Notes payable payments  
 (174,082) (257,510)  
 Junior subordinated notes proceeds  
 77,321  
 Resort Residential Development Properties notes payable borrowings  
 205,517 179,870  
 Resort Residential Development Properties notes payable payments  
 (96,269) (85,253)  
 Capital distributions to joint venture partners  
 (9,532) (6,271)  
 Capital contributions from joint venture partners  
 8,446 7,104  
 Proceeds from exercise of share and unit options  
 22,778 21,304  
 Reissuance of Treasury Shares  
 16  
 Series A Preferred Share distributions  
 (17,972) (17,972)  
 Series B Preferred Share distributions  
 (6,056) (6,056)  
 Dividends and unitholder distributions  
 (138,235) (133,128)

Net cash provided by financing activities  
 \$91,011 \$170,084

(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS

\$(8,997) \$63,822

CASH AND CASH EQUIVALENTS, Beginning of period

86,228 92,291

CASH AND CASH EQUIVALENTS, End of period

\$77,231 \$156,113

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

6

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**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

*References to we, us or our refer to Crescent Real Estate Equities Company and, unless the context otherwise requires, Crescent Real Estate Equities Limited Partnership, which we refer to as our Operating Partnership, and our other direct and indirect subsidiaries. We conduct our business and operations through the Operating Partnership, our other subsidiaries and our joint ventures. References to Crescent refer to Crescent Real Estate Equities Company. The sole general partner of the Operating Partnership is Crescent Real Estate Equities, Ltd., a wholly-owned subsidiary of Crescent Real Estate Equities Company, which we refer to as the General Partner.*

We operate as a real estate investment trust, or REIT, for federal income tax purposes and provide management, leasing and development services for some of our properties.

The following table shows our consolidated subsidiaries 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 September 30, 2006.

Operating Partnership	<p>Wholly-owned assets The Avallon IV, Dupont Centre and Financial Plaza, included in our Office Segment.</p> <p>Non wholly-owned assets, consolidated 301 Congress Avenue (50% interest), included in our Office Segment. Fairmont Sonoma Mission Inn (80.1% interest), included in our Resort/Hotel Segment.</p> <p>Non wholly-owned assets, unconsolidated Bank One Center (50% interest), 2211 Michelson Office Development Irvine (40% interest), Three Westlake Park (20% interest), Miami Center (40% interest), One BriarLake Plaza (30% interest), Five Post Oak Park (30% interest), Houston Center (23.85% interest in three office properties and the Houston Center Shops), The Crescent Atrium (23.85% interest), The Crescent Office Towers (23.85% interest), Trammell Crow Center<sup>(1)</sup> (23.85% interest), Post Oak Central (23.85% interest in three Office Properties), Fountain Place (23.85% interest), Fulbright Tower (23.85% interest) and One Buckhead Plaza (35% interest), included in our Office Segment. AmeriCold Realty Trust (31.7% interest in 86 properties), included in our Temperature-Controlled Logistics Segment. Canyon Ranch Tucson and Canyon Ranch Lenox (48% interest), included in our Resort/Hotel Segment.</p>
Crescent Real Estate Funding One, L.P. (Funding One)	Wholly-owned assets Carter Burgess Plaza, 125 E. John Carpenter Freeway, The Aberdeen, Regency Plaza One and The Citadel, included in our Office Segment.
Hughes Center Entities <sup>(2)</sup>	Wholly-owned assets Hughes Center Properties (eight office properties each in a separate limited liability company), 3883 Hughes Parkway (Office Development), included in our Office Segment.
Crescent Real Estate Funding III, IV and V, L.P. (Funding III, IV and V) <sup>(3)</sup>	Non wholly-owned assets, consolidated Greenway Plaza Office Properties (ten Office Properties, 99.9% interest), included in our Office Segment. Renaissance Houston Hotel (99.9% interest), included in our Resort/Hotel Segment.
Crescent Real Estate Funding VIII, L.P. (Funding VIII)	Wholly-owned assets The Addison, Austin Centre, The Avallon I, II, III and V, Exchange Building, 816 Congress, Greenway I & IA (two office properties), Greenway II, Johns Manville Plaza, One Live Oak, Palisades Central I, Palisades Central II, Stemmons Place, 3333 Lee Parkway, 44 Cook and 55 Madison, included in

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our Office Segment. Omni Austin Hotel and Ventana Inn & Spa, included in our Resort/Hotel Segment.

Crescent Real Estate Funding XII, L.P. (Funding XII)	Wholly-owned assets	Briargate Office and Research Center, MacArthur Center I & II and Stanford Corporate Center, included in our Office Segment. Park Hyatt Beaver Creek Resort & Spa, included in our Resort/Hotel Segment.
Crescent 707 17 <sup>th</sup> Street, LLC	Wholly-owned assets	707 17 <sup>th</sup> Street, included in our Office Segment and the Denver Marriott City Center, included in our Resort/Hotel Segment.
Crescent Peakview Tower, LLC	Wholly-owned asset	Peakview Tower, included in our Office Segment.
Crescent Alhambra, LLC	Wholly-owned asset	The Alhambra (two Office Properties), included in our Office Segment.
Crescent Datran Center, LLC	Wholly-owned asset	Datran Center (two Office Properties), included in our Office Segment.
Crescent Spectrum Center, L.P.	Non wholly-owned asset, consolidated	Spectrum Center (99.9% interest), included in our Office Segment.
Crescent-JMIR Paseo Del Mar, LLC	Non wholly-owned asset, consolidated	Paseo Del Mar Office Development (80% interest), included in our Office Segment.
C-C Parkway Austin, L.P.	Non wholly-owned asset, consolidated	Parkway at Oakhill Office Development (90% interest), included in our Office Segment.
Crescent Colonnade, LLC	Wholly-owned asset	The BAC-Colonnade Building, included in our Office Segment.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Mira Vista Development Corp. (MVDC)	Non wholly-owned asset, consolidated Mira Vista (98% interest), included in our Resort Residential Development Segment.
Jefferson Station, L.P. <sup>(4)</sup>	Non wholly-owned asset, consolidated JPI (50% interest), included in our Resort Residential Development Segment.
Crescent Plaza Residential, L.P.	Wholly-owned asset the Residences at the Ritz-Carlton Development, included in our Resort Residential Development Segment.
Crescent Tower Residential, L.P.	Wholly-owned asset the Tower Residences and Regency Row at the Ritz-Carlton Development, included in our Resort Residential Development Segment.
Crescent Plaza Hotel Owner, L.P.	Wholly-owned asset the Ritz-Carlton Hotel Development, included in our Resort/Hotel Segment.
Houston Area Development Corp. (HADDC)	Non wholly-owned assets, consolidated Falcon Point (98% interest) and Spring Lakes (98% interest), included in our Resort Residential Development Segment.
Desert Mountain Development Corporation (DMDC)	Non wholly-owned asset, consolidated Desert Mountain (93% interest), included in our Resort Residential Development Segment.
Crescent Resort Development Inc. (CRDI) <sup>(4)</sup>	Wholly-owned asset The Residences at Park Hyatt Beaver Creek, included in our Resort Residential Development Segment.
	Non wholly-owned assets, consolidated Brownstones (64% interest), Creekside Townhomes at Riverfront Park (64% interest), Delgany (64% interest), One Riverfront (64% interest), Beaver Creek Landing (59% interest), Eagle Ranch (76% interest), Gray s Crossing (71% interest), Hummingbird (64% interest), Main Street Vacation Club (30% interest), Northstar Highlands (57% interest), Northstar Village (57% interest), Old Greenwood (71% interest), Riverbend (68% interest), Village Walk (58% interest), Tahoe Mountain Club (71% interest) and Ritz-Carlton Highlands (71% interest), included in our Resort Residential Development Segment.
	Non wholly-owned assets, unconsolidated Blue River Land Company, LLC Three Peaks (33.2% interest), EW Deer Valley, LLC (35.7% interest) and East West Resort Development XIV, L.P., L.L.L.P. (26.8%), included in our Resort Residential Development Segment.

(1) We own 23.85% of the economic interest in Trammell Crow Center through our ownership of a 23.85%

interest in the joint venture that holds fee simple title to the Office 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.

- (2) In addition, we own nine retail parcels located in Hughes Center.
- (3) 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.
- (4) We receive a preferred return

on our invested capital before cash flows are allocated to the partners.

See Note 8, Investments in Unconsolidated Companies, for a table that lists our ownership in significant unconsolidated joint ventures and investments as of September 30, 2006.

See Note 9, Notes Payable and Borrowings Under Credit Facility, for a list of certain other subsidiaries, all of which are consolidated in our financial statements and were formed primarily for the purpose of obtaining secured debt.

### Segments

Our assets and operations consisted of four investment segments at September 30, 2006, as follows:

Office Segment;

Resort Residential Development Segment;

Resort/Hotel Segment; and

Temperature-Controlled Logistics Segment.

Within these segments, we owned in whole or in part the following operating real estate assets, which we refer to as the Properties, as of September 30, 2006:

**Office Segment** consisted of 74 office properties, which we refer to as the Office Properties, located in 28 metropolitan submarkets in eight states, with an aggregate of approximately 29.8 million net rentable square feet. Fifty-four of the Office Properties are wholly-owned and 20 are owned through joint ventures, two of which are consolidated and 18 of which are unconsolidated.

**Resort Residential Development Segment** consisted of our ownership of common stock representing interests of 98% to 100% in four Resort Residential Development Corporations and three limited partnerships. These Resort Residential Development Corporations, through partnership arrangements, owned in whole or in part 28 upscale resort residential development properties, which we refer to as the Resort Residential Development Properties.



**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Resort/Hotel Segment** consisted of five luxury and destination fitness resorts and spas with a total of 949 rooms/guest nights and three upscale business-class hotel properties with a total of 1,376 rooms, which we refer to as the Resort/Hotel Properties. Five of the Resort/Hotel Properties are wholly-owned, one is owned through a joint venture that is consolidated and two are owned through joint ventures that are unconsolidated.

**Temperature-Controlled Logistics Segment** consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT. As of September 30, 2006, AmeriCold operated 102 facilities, of which 86 were wholly-owned, one was partially-owned and fifteen were managed for outside owners. The 87 owned and partially-owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, had an aggregate of approximately 445.1 million cubic feet (17.7 million square feet) of warehouse space. AmeriCold also owned one quarry and the related land.

See Note 3, Segment Reporting, for a table showing selected financial information for each of these investment segments for the nine months ended September 30, 2006 and 2005, and total assets, consolidated property level financing, consolidated other liabilities and minority interests for each of these investment segments at September 30, 2006 and December 31, 2005.

**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 nine month period ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

The consolidated balance sheet at December 31, 2005, 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 our annual report on Form 10-K for the year ended December 31, 2005.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Adoption of New Accounting Standards**

**SFAS No. 123R.** In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123R (Revised 2004), *Share-Based Payment*. The new FASB rule requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. We were required to apply SFAS No. 123R beginning January 1, 2006. The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Effective January 1, 2003, we adopted the fair value expense recognition provisions of SFAS No. 123 on a prospective basis. We adopted SFAS No. 123R using the modified prospective application method which requires, among other things, that we recognize compensation cost for all awards outstanding at January 1, 2006, for which the requisite service has not yet been rendered. Additionally, our prior interim periods and fiscal years do not reflect any restated amounts due to the adoption of SFAS No. 123R. We estimate an additional \$1.4 million and \$0.2 million of

expense will be recorded for the years ended December 31, 2006 and 2007, respectively, for stock and unit options due to the adoption of SFAS No. 123R.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**EITF 04-5.** At its June 2005 meeting, the Emerging Issues Task Force, or EITF, reached a consensus regarding Issue No. 04-5 (EITF 04-5), *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF 04-5 was effective immediately for all newly-formed limited partnerships and for existing limited partnership agreements that are modified. The guidance is effective for existing limited-partnership agreements that are not modified no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The guidance provides a framework for addressing the question of when a general partner, as defined in EITF 04-5, should consolidate a limited partnership. The EITF has concluded that the general partner of a limited partnership should consolidate a limited partnership unless (1) the limited partners possess substantive kick-out rights as defined in paragraph B20 of Interpretation No. 46(R), *Consolidation of Variable Interest Entities* – an Interpretation of ARB No. 51, or FIN 46R or (2) the limited partners possess substantive participating rights similar to the rights described in Issue 96-16, *Investor's Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have Certain Approval or Veto Rights* (EITF 96-16). The FASB has amended Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and EITF 96-16, to conform and align with the guidelines set forth in EITF 04-5. There was no impact to our financial condition or results of operations from the adoption of EITF 04-5.

**EITF 06-3.** At its June 2006 meeting, the EITF ratified the consensus regarding Issue No. 06-3 (EITF 06-3), *How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)*. EITF 06-3 is effective for interim and annual periods beginning after December 15, 2006, with earlier application permitted. The scope of EITF 06-3 includes any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value added, and certain excise taxes. The consensus indicates that gross vs. net income statement classification of those taxes within its scope is an accounting policy decision. In addition, for taxes within its scope, the consensus requires the following disclosures: the accounting policy elected for these taxes and the amounts of the taxes reflected gross (as revenue) in the income statement on an interim and annual basis. We do not believe there will be an impact to our financial condition or results of operations from the adoption of EITF 06-3.

**FASB Interpretation 48.** In July 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, and are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet a more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. We are currently evaluating the impact, if any, to our financial condition and results of operations from the adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the beginning balance of accumulated deficit on January 1, 2007.

**SFAS No. 157.** In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The new FASB rule defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, or GAAP, and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact, if any, to our financial condition or results of operations from the adoption of SFAS No. 157.

**SAB No. 108.** In September 2006, the Securities and Exchange Commission, or SEC, issued Staff Accounting Bulletin No. 108, *Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying*

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*Misstatements in Current Year Financial Statements*, (SAB 108), which is effective for fiscal years ending after November 15, 2006. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements. We do not believe there will be an impact to our financial condition or results of operations from the adoption of SAB No. 108.

Table of Contents

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Significant Accounting Policies**

**Earnings Per Share.** SFAS No. 128, *Earnings Per Share*, specifies the computation, presentation and disclosure requirements for earnings per share, or EPS.

Basic EPS is computed by dividing net income available to common shareholders 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 shares were exercised or converted into common shares, where such exercise or conversion would result in a lower EPS amount. We present both basic and diluted earnings per share.

The following tables present the reconciliation for the three and nine months ended September 30, 2006 and 2005, of basic and diluted earnings per share from Income (loss) before discontinued operations to Net income (loss) available to common shareholders. The tables also include weighted average shares on a basic and diluted basis.

	Income (Loss)	For the three months ended September 30, 2006		(Loss) Income	2005	
		Wtd. Avg. Shares	Per Share Amount		Wtd. Avg. Shares	Per Share Amount
(in thousands, except per share amounts)						
<b>Basic EPS</b>						
Income (loss) before discontinued operations	\$ 9,318	102,449		\$ (10,838)	100,663	
Series A Preferred Share distributions	(5,991)			(5,991)		
Series B Preferred Share distributions	(2,019)			(2,019)		
Income (loss) available to common shareholders before discontinued operations	\$ 1,308	102,449	\$ 0.01	\$ (18,848)	100,663	\$ (0.19)
Income from discontinued operations, net of minority interests	61			811		0.01
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(105)			(64)		
Gain on sale of real estate from discontinued operations, net of minority interests	50			89,735		0.89
Net income available to common shareholders	\$ 1,314	102,449	\$ 0.01	\$ 71,634	100,663	\$ 0.71

	Income (Loss)	For the three months ended September 30, 2006		(Loss) Income	2005	
		Wtd. Avg. Shares	Per Share Amount		Wtd. Avg. Shares	Per Share Amount
(in thousands, except per share amounts)						
<b>Diluted EPS</b>						

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Income (loss) before discontinued operations	\$ 9,318	102,449		\$ (10,838)	100,663	
Series A Preferred Share distributions	(5,991)			(5,991)		
Series B Preferred Share distributions	(2,019)			(2,019)		
Effect of dilutive securities:						
Share and unit options		1,614			(1)	
Income (loss) available to common shareholders before discontinued operations	\$ 1,308	104,063	\$ 0.01	\$ (18,848)	100,663	\$ (0.19)
Income from discontinued operations, net of minority interests	61			811		0.01
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(105)			(64)		
Gain on sale of real estate from discontinued operations, net of minority interests	50			89,735		0.89
Net income available to common shareholders	\$ 1,314	104,063	\$ 0.01	\$ 71,634	100,663	\$ 0.71

(1) Share and unit options are not included because the effect of their conversion would be antidilutive to loss available to common shareholders before discontinued operations.

**For the nine months ended September 30,**

	(Loss)	Wtd.	Per	(Loss)	Wtd.	Per
(in thousands, except per share amounts)	Income	Avg.	Share	Income	Avg.	Share
<b>Basic/Diluted EPS</b> (1)		Shares	Amount		Shares	Amount
Income (loss) before discontinued operations	\$ 7,304	101,856		\$ (22,568)	99,936	
Series A Preferred Share distributions	(17,972)			(17,972)		
Series B Preferred Share distributions	(6,056)			(6,056)		

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Loss available to common shareholders before discontinued operations	\$ (16,724)	101,856	\$ (0.16)	\$ (46,596)	99,936	\$ (0.46)
Income from discontinued operations, net of minority interests	195			4,208		0.04
Impairment charges related to real estate assets from discontinued operations, net of minority interests	(105)			(64)		
Gain on sale of real estate from discontinued operations, net of minority interests	139			91,238		0.91
Net (loss) income available to common shareholders	\$ (16,495)	101,856	\$ (0.16)	\$ 48,786	99,936	\$ 0.49

(1) Share and unit options are not included because the effect of their conversion would be antidilutive to loss available to common shareholders before discontinued operations.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The effect of the conversion of the Series A Convertible Cumulative Preferred Shares and the exchange of Operating Partnership units are not included in the computation of diluted EPS for the three and nine months ended September 30, 2006 and 2005, since the effect of the conversions are not dilutive.

**Supplemental Disclosure to Statements of Cash Flows**

(in thousands)	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ (118,385)	\$ (116,317)
Cash received (paid) for income taxes	\$ 867	\$ (633)
Interest capitalized Office	\$ 3,795	\$ 173
Interest capitalized Resort Residential Development	16,093	14,716
Interest capitalized Resort/Hotel	2,008	523
Total interest capitalized	\$ 21,896	\$ 15,412

**Supplemental disclosures of non cash activities:**

Assumption of debt in conjunction with acquisition of Office Property	\$ 23,605	\$
Joint venture of Office Properties debt	\$	\$ 158,350

**3. SEGMENT REPORTING**

For purposes of segment reporting as defined in SFAS No. 131, we have four major investment segments based on property type: the Office Segment; the Resort Residential Development Segment; the Resort/Hotel Segment and the Temperature-Controlled Logistics Segment. Management utilizes this segment structure for making operating decisions and assessing performance.

We use funds from operations, or 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, or NAREIT, and means:

Net Income (Loss) determined in accordance with GAAP;

excluding gains (losses) from sales of depreciable operating property;

excluding extraordinary items (as defined by GAAP);

plus depreciation and amortization of real estate assets; and

after adjustments for unconsolidated partnerships and joint ventures.

We calculate 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 we include 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. We consider 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 our operating performance.

Our 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 we apply it.

Selected financial information related to each segment for the three and nine months ended September 30, 2006 and 2005, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of the segments at September 30, 2006 and 2005, are presented in the following tables:

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Selected Financial Information:**

	For the three months ended September 30, 2006					
	Office	Resort Residential Development	Resort/Hotel	Temperature- Controlled Logistics	Corporate and Other <sup>(2)</sup>	Total
(in thousands)	Segment <sup>(1)</sup>	Segment	Segment	Segment		
Total Property revenue	\$ 103,115	\$ 67,662	\$ 33,870	\$	\$	\$ 204,647
Total Property expense	51,306	63,725	25,170			140,201
Income from Property Operations	\$ 51,809	\$ 3,937	\$ 8,700	\$	\$	\$ 64,446
Total other income (expense)	(586)	(5,023)	(5,795)	(1,831)	(42,229)	(55,464)
Minority interests and income taxes	(1,399)	3,230	339		(1,834)	336
Discontinued operations net of minority interests	51				(45)	6
Net income (loss)	\$ 49,875	\$ 2,144	\$ 3,244	\$ (1,831)	\$ (44,108)	\$ 9,324
Depreciation and amortization of real estate assets	\$ 25,937	\$ 2,620	\$ 4,017	\$	\$	\$ 32,574
(Gain) loss on property sales	(9,558)	6				(9,552)
Promoted interests related to the sale of investment in unconsolidated companies	(14,742)					(14,742)
Adjustments for investment in unconsolidated companies	5,770	(3,276)	1,204	4,212		7,910
Unitholder minority interest					1,774	1,774
Series A Preferred share distributions					(5,991)	(5,991)
Series B Preferred share distributions					(2,019)	(2,019)
Adjustments to reconcile net income (loss) to funds	\$ 7,407	\$ (650)	\$ 5,221	\$ 4,212	\$ (6,236)	\$ 9,954

from operations available  
to common shareholders  
diluted

Funds from operations  
available to common  
shareholders diluted

\$ 57,282	\$ 1,494	\$ 8,465	\$ 2,381	\$ (50,344)	\$ 19,278
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See footnotes following the table.

**Selected Financial Information:**

	For the three months ended September 30, 2005					
	Office	Resort Residential Development	Resort/Hotel	Temperature- Controlled Logistics	Corporate and Other <sup>(2)</sup>	Total
(in thousands)	Segment <sup>(1)</sup>	Segment	Segment	Segment		
Total Property revenue	\$ 96,283	\$ 78,401	\$ 35,787	\$	\$	\$ 210,471
Total Property expense	50,083	68,706	26,531			145,320
Income from Property Operations	\$ 46,200	\$ 9,695	\$ 9,256	\$	\$	\$ 65,151
Total other income (expense)	(23,697)	(5,156)	(5,317)	76	(43,290)	(77,384)
Minority interests and income taxes	(1,365)	858	151		1,751	1,395
Discontinued operations, net of minority interests	106,535				(16,053)	90,482
Net income (loss)	\$ 127,673	\$ 5,397	\$ 4,090	\$ 76	\$ (57,592)	\$ 79,644
Depreciation and amortization of real estate assets	\$ 27,208	\$ 2,238	\$ 4,219	\$	\$	\$ 33,665
(Gain) loss on property sales	(105,847)		39			(105,808)
Adjustments for investment in unconsolidated companies	5,548	(2,161)	1,004	4,530		8,921
Unitholder minority interest					14,049	14,049
Series A Preferred share distributions					(5,991)	(5,991)
Series B Preferred share distributions					(2,019)	(2,019)

Adjustments to reconcile net income (loss) to funds from operations available to common shareholders diluted	(73,091)	77	5,262	4,530	6,039	(57,183)
Funds from operations available to common shareholders diluted	\$ 54,582	\$ 5,474	\$ 9,352	\$ 4,606	\$ (51,553)	\$ 22,461

See footnotes following the table.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Selected Financial Information:**

	<b>For the nine months ended September 30, 2006</b>					
	<b>Office</b>	<b>Resort Residential Development</b>	<b>Resort/Hotel</b>	<b>Temperature- Controlled Logistics</b>	<b>Corporate and Other<sup>(2)</sup></b>	<b>Total</b>
(in thousands)	<b>Segment<sup>(1)</sup></b>	<b>Segment</b>	<b>Segment</b>	<b>Segment</b>		<b>Total</b>
Total Property revenue	\$ 313,188	\$ 220,517	\$ 104,609	\$	\$	\$ 638,314
Total Property expense	152,731	205,105	78,441			436,277
Income from Property Operations	\$ 160,457	\$ 15,412	\$ 26,168	\$	\$	\$ 202,037
Total other income (expense)	(44,927)	(14,141)	(16,709)	(4,432)	(118,618)	(198,827)
Minority interests and income taxes	(2,640)	6,380	1,751		(1,397)	4,094
Discontinued operations net of minority interests	156				73	229
Net income (loss)	\$ 113,046	\$ 7,651	\$ 11,210	\$ (4,432)	\$ (119,942)	\$ 7,533
Depreciation and amortization of real estate assets	\$ 77,374	\$ 7,580	\$ 12,173	\$	\$	\$ 97,127
Gain on property sales	(13,920)	(153)				(14,073)
Promoted interests related to the sale of investment in unconsolidated companies	(14,742)					(14,742)
Adjustments for investment in unconsolidated companies	16,025	(9,276)	3,497	11,991		22,237
Unitholder minority interest					1,435	1,435
Series A Preferred share distributions					(17,972)	(17,972)
Series B Preferred share distributions					(6,056)	(6,056)
	\$ 64,737	\$ (1,849)	\$ 15,670	\$ 11,991	\$ (22,593)	\$ 67,956

Adjustments to reconcile net income (loss) to funds from operations available to common shareholders diluted

Funds from operations available to common shareholders diluted

\$ 177,783	\$ 5,802	\$ 26,880	\$ 7,559	\$ (142,535)	\$ 75,489
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See footnotes following the table.

**Selected Financial Information:**

	<b>For the nine months ended September 30, 2005</b>					
	<b>Office</b>	<b>Resort Residential Development</b>	<b>Resort/Hotel</b>	<b>Temperature-Controlled Logistics</b>	<b>Corporate and Other<sup>(2)</sup></b>	<b>Total</b>
(in thousands)	<b>Segment<sup>(1)</sup></b>	<b>Segment</b>	<b>Segment</b>	<b>Segment</b>	<b>Segment</b>	<b>Segment</b>
Total Property revenue	\$ 277,849	\$ 218,714	\$ 105,546	\$	\$	\$ 602,109
Total Property expense	143,867	191,154	81,989			417,010
Income from Property Operations	\$ 133,982	\$ 27,560	\$ 23,557	\$	\$	\$ 185,099
Total other income (expense)	(67,411)	(13,367)	(16,487)	(2,266)	(110,585)	(210,116)
Minority interests and income taxes	(3,402)	2,899	2,923		29	2,449
Discontinued operations net of minority interests	112,135				(16,753)	95,382
Net income (loss)	\$ 175,304	\$ 17,092	\$ 9,993	\$ (2,266)	\$ (127,309)	\$ 72,814
Depreciation and amortization of real estate assets	\$ 79,737	\$ 6,954	\$ 15,769	\$	\$	\$ 102,460
Gain on property sales	(109,155)		(141)		(289)	(109,585)
Adjustments for investment in unconsolidated companies	15,627	(2,609)	2,813	13,729		29,560
Unitholder minority interest					12,849	12,849
Series A Preferred share distributions					(17,972)	(17,972)
Series B Preferred share distributions					(6,056)	(6,056)

Adjustments to reconcile net income (loss) to funds from operations available to common shareholders diluted	\$ (13,791)	\$ 4,345	\$ 18,441	\$ 13,729	\$ (11,468)	\$ 11,256
Funds from operations available to common shareholders diluted	\$ 161,513	\$ 21,437	\$ 28,434	\$ 11,463	\$ (138,777)	\$ 84,070

See footnotes following the table.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(in millions)	<b>Office Segment</b>	<b>Resort Residential Development Segment</b>	<b>Resort/Hotel Segment</b>	<b>Temperature- Controlled Logistics Segment</b>	<b>Corporate and Other</b>	<b>Total</b>
<b>Total Assets by Segment:</b> <sup>(3)</sup>						
Balance at September 30, 2006 <sup>(4)</sup>	\$ 2,104	\$ 1,200	\$ 367	\$ 155	\$ 488 <sup>(5)</sup>	\$ 4,314
Balance at December 31, 2005 <sup>(4)</sup>	2,024	969	338	162	649 <sup>(5)</sup>	4,142
<b>Consolidated Property Level Financing:</b>						
Balance at September 30, 2006	(972)	(252)	(128)		(1,165) <sup>(6)</sup>	(2,517)
Balance at December 31, 2005	(851)	(143)	(59)		(1,206) <sup>(6)</sup>	(2,259)
<b>Consolidated Other Liabilities:</b>						
Balance at September 30, 2006	(116)	(311)	(32)		(50)	(509)
Balance at December 31, 2005	(117)	(287)	(28)		(41)	(473)
<b>Minority Interests:</b>						
Balance at September 30, 2006	(17)	(32)	(5)		(102)	(156)
Balance at December 31, 2005	(15)	(32)	(6)		(114)	(167)

(1) The property revenue includes lease termination fees (net of the write-off of deferred rent receivables) of approximately \$8.5 million and \$4.9 million for the three months ended September 30, 2006 and 2005, respectively and \$33.9 million and \$7.0 million for the nine months ended September 30, 2006 and 2005, respectively. The 2006 lease termination fees are primarily due to the El Paso lease termination and related re-leasing.



- (2) For purposes of this Note, Corporate and Other includes the total of: income from investment land sales, net, interest and other income, corporate general and administrative expense, interest expense, extinguishment of debt, other expenses and equity in net income of unconsolidated companies-other.
  
- (3) Total assets by segment are inclusive of investments in unconsolidated companies.
  
- (4) Non-income producing land held for investment or development of \$88.1 million and \$84.4 million at September 30, 2006 and December 31, 2005, respectively, by segment is as follows: Office \$28.0 million and \$24.3 million, Resort Residential Development \$9.6 million and \$9.6 million,

Resort/Hotel  
 \$7.3 million and  
 \$7.3 million and  
 Corporate  
 \$43.2 million and  
 \$43.2 million,  
 respectively.

- (5) Includes mezzanine investments and defeasance investments.
- (6) Inclusive of Corporate bonds, Credit Facility, Junior Subordinated Notes, the Morgan Stanley and Goldman Sachs repurchase facilities, the Funding I defeased debt and Nomura Funding VI defeased debt. Balance at December 31, 2005 also includes Funding II defeased debt.

#### 4. ACQUISITIONS

During the nine months ended September 30, 2006, we completed the following acquisition:

(in millions)					<b>Purchase Price</b>
<b>Date</b>		<b>Property</b>	<b>Location</b>		
January 23, 2006	Financial Plaza	Class A Office Property	Phoenix, Arizona		\$55.0 <sup>(1)</sup>

- (1) The acquisition was funded by the assumption of a \$23.6 million loan from Allstate, a new \$15.9 million loan from Allstate and a draw on our

credit facility.  
This property is  
wholly-owned.

**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, 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 and gain or loss on the assets sold or held for sale have been presented as Gain on sale of real estate from discontinued operations, net of minority interests in the accompanying Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005. Minority interests for wholly-owned properties represent unitholders share of related income, gains and losses. 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 September 30, 2006 and December 31, 2005.

**Assets Sold**

On February 17, 2006, we completed the sale of the Waterside Commons Office Property located in the Las Colinas submarket in Dallas, Texas. The sale generated proceeds, net of selling costs, of approximately \$24.8 million. We previously recorded an impairment charge of approximately \$1.0 million during the year ended December 31, 2005. The proceeds from the sale were used primarily to pay down our credit facility.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Summary of Assets Held for Sale**

The following table indicates the major classes of assets of the Properties held for sale.

(in thousands)	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Land	\$	\$ 3,650
Buildings and improvements	3,998	31,639
Accumulated depreciation	(43)	(7,465)
Other assets, net	61	1,094
Net investment in real estate	\$ 4,016	\$ 28,918

The following tables present income, impairment charges and gain on sale for the nine months ended September 30, 2006 and 2005, for properties included in discontinued operations.

(in thousands)	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Total revenues	\$ 674	\$ 16,841
Operating and other expenses	(379)	(8,335)
Depreciation and amortization	(63)	(3,555)
Unitholder minority interests	(37)	(743)
Income from discontinued operations, net of minority interests	\$ 195	\$ 4,208

(in thousands)	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Impairment charges related to real estate assets	\$ (125)	\$ (75)
Unitholder minority interests	20	11
Impairment charges related to real estate assets from discontinued operations, net of minority interests	\$ (105)	\$ (64)

(in thousands)	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Realized gain on sale of properties	\$ 165	\$ 107,339
Unitholder minority interests	(26)	(16,101)
Gain on sale of real estate from discontinued operations, net of minority interests	\$ 139	\$ 91,238

**6. JOINT VENTURES**

**Office**

*Parkway at Oakhill*

On March 31, 2006, we entered into a joint venture arrangement, C-C Parkway Austin, L.P. (Parkway), with Champion Partners. The joint venture has committed to co-develop a 144,380 square-foot, two-building office complex in Austin, Texas. The venture is structured such that we own a 90% interest and Champion Partners owns the remaining 10% interest. In connection with the joint venture, Parkway entered into a maximum \$18.3 million construction loan with JPMorgan Chase Bank. Our equity commitment to the joint venture was \$8.2 million, of which \$7.0 million has been funded as of September 30, 2006. The development, which is currently underway, is scheduled for delivery in the second quarter of 2007. Upon completion, we will manage the property on behalf of the joint venture. We consolidate Parkway in accordance with FIN 46R, as it was determined to be a variable interest entity, or VIE, of which we are the primary beneficiary. JPMorgan Chase Bank has no recourse to Crescent.

*Chase Tower*

On June 20, 2006, we completed the sale of Chase Tower on behalf of Austin PT BK One Tower Office Limited Partnership, the joint venture which was owned 80% by an affiliate of GE and 20% by us. The sale generated proceeds to the joint venture, net of selling costs, of approximately \$68.8 million and a net gain of approximately \$10.1 million. Our net gain was approximately \$4.3 million, inclusive of the recognition of the deferred gain from the joint venture of the property in 2001. Our share of the proceeds was approximately \$5.6 million, which was used to pay down the credit facility.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Four Westlake Park*

On September 26, 2006, we completed the sale of Four Westlake Park on behalf of Houston PT Four Westlake Office Limited Partnership, the joint venture which was owned 80% by an affiliate of GE and 20% by us. The sale generated proceeds to the joint venture, net of selling costs, of approximately \$121.3 million and a net gain of approximately \$55.0 million. Our share of the net gain, including a promoted interest of approximately \$14.7 million, was approximately \$24.2 million. Our share of the proceeds was approximately \$28.7 million, which was used to pay down our credit facility.

**Resort Residential Development***Riverfront Village*

On March 21, 2006, CRDI entered into a joint venture arrangement, East West Resort Development XIV, L.P., L.L.L.P. (Riverfront Village), with affiliates of Crow Holdings and our development partner. The joint venture was formed to co-develop a hotel and condominiums in Avon, Colorado. The development, which is currently underway, is scheduled for delivery in 2008. We provided 41.9% of the initial capitalization and the venture is structured such that we own a 26.8% interest after we receive a preferred return on our invested capital and return of our capital. Our equity commitment to the joint venture is \$23.7 million, of which \$13.5 million was funded as of September 30, 2006. We determined that Riverfront Village is a VIE under FIN 46R of which we are not the primary beneficiary; therefore we do not consolidate the entity. Our maximum exposure to loss is limited to the amount of our capital investment. We account for our interest in Riverfront Village under the equity method.

**7. MEZZANINE INVESTMENTS**

The following table presents our mezzanine loans entered into during the nine months ended September 30, 2006. These loans are reflected in the Notes receivable, net line item in the Consolidated Balance Sheets. Mezzanine loans are loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. These loans may be in the form of a junior participating interest in the senior debt or in the form of loans to the direct or indirect parent of the property owner secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property.

(in millions) Date	Outstanding Loan Amount	Underlying Real Estate Asset	Maturity Date	Interest Rate at September 30, 2006	Fixed/ Variable
	\$ 15.0 <sup>(1)</sup>	Florida Hotel Portfolio	2009	13.33%	Variable
January 20, 2006		Investment			
April 12, 2006	20.0 <sup>(2)</sup>	California Ski Resort	2009	9.83%	Variable
May 8, 2006	28.8 <sup>(3)</sup>	New York City Residential	2007	18.16%	Variable

- (1) The loan bears interest at LIBOR plus 800 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan

pursuant to two one-year extension options.

(2) The loan bears interest at LIBOR plus 450 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to two one-year extension options.

(3) The loan bears interest at LIBOR plus 1,283 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to two one-year extension options. We determined that the entity to which the loan was funded is a VIE under FIN 46R of which we are not the primary beneficiary; therefore, we do not consolidate the entity. Our maximum

exposure to loss  
is limited to the  
amount of the  
loan.

In February 2006, we received approximately \$56.4 million of proceeds for the repayment of two of our mezzanine investments, which included \$6.2 million of prepayment fees.

At September 30, 2006, we had approximately \$186.2 million of mezzanine investments outstanding which mature in 2007 through 2010 and had a weighted average interest rate of 13.47%.



**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. INVESTMENTS IN UNCONSOLIDATED COMPANIES**

The following is a summary of our ownership in significant unconsolidated joint ventures and investments as of September 30, 2006.

<b>Entity</b>	<b>Classification</b>	<b>Our Ownership as of September 30, 2006</b>
Main Street Partners, L.P.	Office (Bank One Center-Dallas)	50.0% <sup>(1)</sup>
	Office (2211 Michelson Office Development Irvine)	40.0% <sup>(2)</sup>
Crescent Irvine, LLC	Office (Miami Center Miami)	40.0% <sup>(3)(4)</sup>
Crescent Miami Center, LLC	Office (One Buckhead Plaza Atlanta)	35.0% <sup>(5)(4)</sup>
Crescent One Buckhead Plaza, L.P.	Office (Post Oak Central Houston)	23.9% <sup>(6)(4)</sup>
Crescent POC Investors, L.P.	Office (Houston Center Houston)	23.9% <sup>(6)(4)</sup>
Crescent HC Investors, L.P.	Office (The Crescent Dallas)	23.9% <sup>(6)(4)</sup>
Crescent TC Investors, L.P.	Office (Trammell Crow Center, Mortgage Dallas)	23.9% <sup>(7)(4)</sup>
Crescent Ross Avenue Mortgage Investors, L.P.	Office (Trammell Crow Center, Ground Lessor Dallas)	23.9% <sup>(7)(4)</sup>
Crescent Ross Avenue Realty Investors, L.P.	Office (Fountain Place Dallas)	23.9% <sup>(7)(4)</sup>
Crescent Fountain Place, L.P.	Office (Five Post Oak Park Houston)	30.0% <sup>(8)(4)</sup>
Crescent Five Post Oak Park L.P.	Office (One BriarLake Plaza Houston)	30.0% <sup>(9)(4)</sup>
Crescent One BriarLake Plaza, L.P.	Office (Fulbright Tower Houston)	23.9% <sup>(10)(4)</sup>
Crescent 1301 McKinney, L.P.	Office (Three Westlake Park Houston)	20.0% <sup>(11)(4)</sup>
Houston PT Three Westlake Office Limited Partnership	Temperature-Controlled Logistics	31.7% <sup>(12)</sup>
AmeriCold Realty Trust	Resort/Hotel	48.0% <sup>(13)</sup>
CR Operating, LLC	Resort/Hotel	48.0% <sup>(13)</sup>
CR Spa, LLC	Resort Residential Development	26.8% <sup>(14)</sup>
East West Resort Development XIV, L.P., L.L.L.P.	Resort Residential Development	33.2% <sup>(15)</sup>
Blue River Land Company, LLC	Resort Residential Development	35.7% <sup>(16)</sup>
EW Deer Valley, LLC	Other	26.7% <sup>(17)</sup>
SunTx Fulcrum Fund, L.P. (SunTx)	Other	25.0% <sup>(18)(4)</sup>
Redtail Capital Partners, L.P. (Redtail)	Other	40.0% <sup>(19)</sup>
Fresh Choice, LLC	Other	12.5% <sup>(20)</sup>
G2 Opportunity Fund, L.P. (G2)		

(1) The remaining 50% interest is owned by Trizec Properties, Inc.

(2)

The remaining 60% interest is owned by an affiliate of Hines.

- (3) The remaining 60% interest is owned by an affiliate of a fund managed by JP Morgan Investment Management, Inc., or JPM.
- (4) We have negotiated performance based incentives, which we refer to as promoted interest, which allow for additional equity to be earned if return targets are exceeded.
- (5) The remaining 65% interest is owned by Metzler US Real Estate Fund, L.P.
- (6) Each limited partnership is owned by Crescent Big Tex I, L.P., which is owned 60% by a fund advised by JPM and 16.1% by affiliates of General Electric, or GE.

- (7) Each limited partnership is owned by Crescent Big Tex II, L.P., which is owned 76.1% by a fund advised by JPM.
- (8) The remaining 70% interest is owned by an affiliate of GE.
- (9) The remaining 70% interest is owned by affiliates of JPM.
- (10) The partnership is owned by Crescent Big Tex III, L.P., which is owned 60% by a fund advised by JPM and 16.1% by affiliates of GE.
- (11) The remaining 80% interest is owned by an affiliate of GE.
- (12) Of the remaining 68.3% interest, 47.6% is owned by Vornado Realty, L.P. and 20.7% is owned by The Yucaipa Companies.
- (13) The remaining 52% interest is owned by the founders of Canyon Ranch and their

affiliates. CR Spa, LLC operates three resort spas which offer guest programs and services and sells Canyon Ranch branded skin care products exclusively at the destination health resorts and the resort spas. CR Operating, LLC operates and manages the two Canyon Ranch destination health resorts, Tucson and Lenox, and collaborates with select real estate developers in developing residential lifestyle communities.

- (14) We provided 41.9% of the initial capitalization and the venture is structured such that we own a 26.8% interest after we receive a preferred return on our invested capital. The remaining 73.2% economic interest is

owned by parties unrelated to us. East West Resort Development XIV, L.P., L.L.L.P. was formed to co-develop a hotel and condominiums in Avon, Colorado.

(15) The remaining 66.8% interest is owned by parties unrelated to us. Blue River Land Company, LLC was formed to acquire, develop and sell certain real estate property in Summit County, Colorado.

(16) The remaining 64.3% interest is owned by parties unrelated to us. EW Deer Valley, LLC was formed to acquire, hold and dispose of its 3.3% ownership interest in Empire Mountain Village, L.L.C. Empire Mountain Village, LLC was formed to acquire, develop and sell certain real estate

property at Deer Valley Ski Resort next to Park City, Utah.

- (17) Of the remaining 73.3%, approximately 42.5% is owned by SunTx Capital Partners, L.P. and the remaining 30.8% is owned by a group of individuals unrelated to us. Of our limited partnership interest in SunTx, 6.3% is through an unconsolidated investment in SunTx Capital Partners, L.P., the general partner of SunTx. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of entities that offer the potential for substantial capital appreciation.
- (18) The remaining 75% interest is owned by Capstead Mortgage Corporation. Redtail was formed to invest up to \$100.0 million

in equity in  
select  
mezzanine loans  
on commercial  
real estate over  
a two-year  
period.

(19) The remaining  
60% interest is  
owned by  
Cedarlane  
Natural Foods,  
Inc. Fresh  
Choice is a  
restaurant  
owner, operator  
and developer.

(20) G2 was formed  
for the purpose  
of investing in  
commercial  
mortgage  
backed  
securities and  
other  
commercial real  
estate  
investments.  
The remaining  
87.5% interest is  
owned by  
Goff-Moore  
Strategic  
Partners, L.P.,  
or GMSPLP,  
and by parties  
unrelated to us.  
G2 is managed  
and controlled  
by an entity that  
is owned  
equally by  
GMSPLP and  
GMAC  
Commercial  
Mortgage  
Corporation, or  
GMACCM. The  
ownership

structure of  
GMSPLP  
consists of an  
approximately  
92% limited  
partnership  
interest owned  
directly and  
indirectly by  
Richard E.  
Rainwater,  
Chairman of our  
Board of Trust  
Managers, of  
which  
approximately  
6% is owned by  
Darla Moore,  
who is married  
to  
Mr. Rainwater.  
Approximately  
6% general  
partner interest  
is owned by  
John C. Goff,  
Vice-Chairman  
of our Board of  
Trust Managers  
and our Chief  
Executive  
Officer. The  
remaining  
approximately  
2% general  
partnership  
interest is  
owned by  
unrelated  
parties.



**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Summary Financial Information**

We report our share of income and losses based on our ownership interest in our 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 September 30, 2006:

Office This includes Crescent Big Tex I, L.P., Crescent Big Tex II, L.P., Main Street Partners, L.P., Crescent Irvine, LLC, Houston PT Three Westlake Office Limited Partnership, Crescent Miami Center, LLC, Crescent Five Post Oak Park L.P., Crescent One BriarLake Plaza, L.P., Crescent Big Tex III, L.P. and Crescent One Buckhead Plaza, L.P.;

Temperature-Controlled Logistics This includes AmeriCold Realty Trust;

Resort/Hotel This includes CR Operating, LLC and CR Spa, LLC;

Resort Residential Development This includes East West Resort Development XIV, L.P., L.L.L.P., Blue River Land Company, LLC, and EW Deer Valley, LLC; and

Other This includes SunTx, SunTx Capital Partners, L.P., Redtail, Fresh Choice, LLC and G2.

Balance Sheets as of December 31, 2005:

Office This includes Crescent Big Tex I, L.P., Crescent Big Tex II, L.P., Main Street Partners, L.P., Crescent Irvine, LLC, Houston PT Three Westlake Office Limited Partnership, Houston PT Four Westlake Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent Miami Center, LLC, Crescent Five Post Oak Park L.P., Crescent One BriarLake Plaza, L.P., Crescent Big Tex III, L.P. and Crescent One Buckhead Plaza, L.P.;

Temperature-Controlled Logistics This includes AmeriCold Realty Trust;

Resort/Hotel This includes CR Operating, LLC and CR Spa, LLC;

Resort Residential Development This includes Blue River Land Company, LLC and EW Deer Valley, LLC; and

Other This includes SunTx, SunTx Capital Partners, L.P., Redtail, Fresh Choice, LLC and G2.

Summary Statements of Operations for the nine months ended September 30, 2006:

Office This includes Crescent Big Tex I, L.P., Crescent Big Tex II, L.P., Main Street Partners, L.P., Crescent Irvine, LLC, Houston PT Three Westlake Office Limited Partnership, Houston PT Four Westlake Office Limited Partnership, Austin PT BK One Tower Office Limited Partnership, Crescent Miami Center, LLC, Crescent Five Post Oak Park L.P., Crescent One BriarLake Plaza, L.P., Crescent Big Tex III, L.P. and Crescent One Buckhead Plaza, L.P.;

Temperature-Controlled Logistics This includes AmeriCold Realty Trust;

Resort/Hotel This includes CR Operating, LLC and CR Spa, LLC;

Resort Residential Development This includes East West Resort Development XIV, L.P., L.L.L.P., Blue River Land Company, LLC, and EW Deer Valley, LLC; and

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Other This includes SunTx, SunTx Capital Partners, L.P., Redtail, Fresh Choice, LLC and G2.

Summary Statements of Operations for the nine months ended September 30, 2005:

Office This includes Crescent Big Tex I, L.P., Crescent Big Tex II, L.P., Main Street Partners, L.P., Crescent Irvine, LLC, 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, LLC, Crescent Five Post Oak Park L.P., Crescent One BriarLake Plaza, L.P., Crescent Big Tex III, L.P. and Crescent One Buckhead Plaza, L.P.;

Temperature-Controlled Logistics This includes AmeriCold Realty Trust;

Resort/Hotel This includes CR Operating, LLC and CR Spa, LLC;

Resort Residential Development This includes Blue River Land Company, LLC and EW Deer Valley, LLC;  
and

Other This includes SunTx, SunTx Capital Partners, L.P., Redtail and G2.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Balance Sheets:**

(in thousands)	As of September 30, 2006					Other	Total
	Office	Temperature- Controlled Logistics	Resort/Hotel	Resort Residential Development			
Real estate, net	\$ 1,867,432	\$ 1,101,474	\$ 112,111	\$ 31,584			
Cash	80,129	174,935	37,363	2,170			
Restricted cash	29,370	54,577	224				
Other assets	248,993	153,750	15,068	17,095			
<b>Total assets</b>	<b>\$ 2,225,924</b>	<b>\$ 1,484,736</b>	<b>\$ 164,766</b>	<b>\$ 50,849</b>			
Notes payable	\$ 1,183,835	\$ 918,942	\$ 95,000	\$ 3,500			
Other liabilities	200,389	90,716	29,081	6,414			
Preferred membership units			107,770				
Equity	841,700	475,078	(67,085)	40,935			
<b>Total liabilities and equity</b>	<b>\$ 2,225,924</b>	<b>\$ 1,484,736</b>	<b>\$ 164,766</b>	<b>\$ 50,849</b>			
Our share of unconsolidated debt	\$ 340,869	\$ 291,488	\$ 45,600	\$ 1,467	\$ 14,255		\$ 693,679
Our investments in unconsolidated companies	\$ 171,031	\$ 155,047	\$ 1,878	\$ 16,695	\$ 43,566		\$ 388,217

**Balance Sheets:**

(in thousands)	As of December 31, 2005					Other	Total
	Office	Temperature- Controlled Logistics	Resort/Hotel	Resort Residential Development			
Real estate, net	\$ 1,944,942	\$ 1,122,155	\$ 108,943	\$ 11,789			
Cash	71,361	25,418	52,100	97			
Restricted cash	36,121	61,367	217				
Other assets	279,437	163,925	12,258	3,425			
<b>Total assets</b>	<b>\$ 2,331,861</b>	<b>\$ 1,372,865</b>	<b>\$ 173,518</b>	<b>\$ 15,311</b>			
Notes payable	\$ 1,244,499	\$ 765,640	\$ 95,000	\$			

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Other liabilities	196,101	109,161	28,523	100		
Preferred membership units			104,231			
Equity	891,261	498,064	(54,236)	15,211		
Total liabilities and equity	\$ 2,331,861	\$ 1,372,865	\$ 173,518	\$ 15,311		
Our share of unconsolidated debt	\$ 348,663	\$ 242,708	\$ 45,600	\$	\$ 9,942	\$ 646,913
Our investments in unconsolidated companies	\$ 178,440	\$ 162,439	\$ 6,200	\$ 6,113	\$ 40,343	\$ 393,535

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Summary Statements of Operations:**

(in thousands)	For the nine months ended September 30, 2006					Total
	Office	Temperature- Controlled Logistics <sup>(1)</sup>	Resort/Hotel	Resort Residential Development	Other	
Total revenues	\$ 256,393	\$ 574,226	\$ 109,117	\$ 6,409		
Operating expense	127,709	479,388	96,150	8,853		
Net Operating Income	\$ 128,684	\$ 94,838	\$ 12,967	\$ (2,444)		
Interest expense	\$ 51,568	\$ 46,758	\$ 4,490	\$		
Depreciation and amortization	72,660	53,641	8,875			
Preferred dividends			9,334			
Taxes and other (income) expense	(2,248)	(1,551)	434	(376)		
Total expenses	\$ 121,980	\$ 98,848	\$ 23,133	\$ (376)		
Gain on sale of assets	65,014	2,095				
Net income (loss)	\$ 71,718	\$ (1,915)	\$ (10,166)	\$ (2,068)		
Our equity in net income (loss) of unconsolidated companies	\$ 7,208	\$ (4,432)	\$ (3,510)	\$ (457)	\$ 1,016	\$ (175)

(1) In connection with the dissolution of Vornado Crescent Portland Partnership, we agreed to pay Vornado Realty, L.P. an annual management fee of \$4.5 million, payable only out of dividends or sale proceeds on the shares of AmeriCold that we own. Our share of equity in net income (loss) for Temperature-Controlled

Logistics includes management fees payable to Vornado Realty, L.P. totaling \$3.4 million for the nine months ended September 30, 2006.

**Summary Statements of Operations:**

(in thousands)	For the nine months ended September 30, 2005					Total
	Office	Temperature-Controlled Logistics <sup>(1)</sup>	Resort/Hotel	Resort Residential Development	Other	
Total revenues	\$ 254,824	\$ 592,893	\$ 103,258	\$ 9,327		
Operating expense	121,186	489,360	83,924	7,588		
Net Operating Income	\$ 133,638	\$ 103,533	\$ 19,334	\$ 1,739		
Interest expense	\$ 50,634	\$ 41,761	\$ 4,077	\$		
Depreciation and amortization	59,429	55,651	7,647			
Preferred dividends			8,950			
Taxes and other (income) expense	(396)	1,113	2,059	(36)		
Total expenses	\$ 109,667	\$ 98,525	\$ 22,733	\$ (36)		
Net income (loss)	\$ 23,971	\$ 5,008	\$ (3,399)	\$ 1,775		
Our equity in net income (loss) of unconsolidated companies	\$ 9,888	\$ (2,266)	\$ 28	\$ (647)	\$ 10,971	\$ 17,974

(1) In connection with the dissolution of Vornado Crescent Portland Partnership, we agreed to pay Vornado Realty, L.P. an annual management fee of \$4.5 million, payable only out of dividends or sale proceeds on the shares of AmeriCold that we own. Our share of equity in net income (loss) for Temperature-Controlled

Logistics includes  
management fees  
payable to Vornado  
Realty, L.P. totaling  
\$3.4 million for the nine  
months ended  
September 30, 2005.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Unconsolidated Debt Analysis**

The following table shows, as of September 30, 2006, information about our 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	Our Ownership	Balance Outstanding at September 30, 2006 (in thousands)	Our Share of Balance at September 30, 2006 (in thousands)	Interest Rate at September 30, 2006	Maturity Date	Fixed/Variable (1)
<b>Temperature-Controlled Logistics Segment:</b>						
AmeriCold Realty Trust	31.72%					
Goldman Sachs <sup>(2)</sup>		\$ 457,226	\$ 145,032	6.89%	5/11/2023	Fixed
Citigroup/Bank of America <sup>(3)</sup>		430,000	136,396	6.58%	6/9/2007	Variable
				3.48% to	12/15/2006	
Other		31,716	10,060	13.63%	to 4/1/2017	Fixed
		\$ 918,942	\$ 291,488			
<b>Office Segment:</b>						
Crescent HC Investors, L.P.	23.85%	269,705	64,325	5.03%	11/7/2011	Fixed
Crescent TC Investors, L.P.	23.85%	214,770	51,223	5.00%	11/1/2011	Fixed
Main Street Partners, L.P. <sup>(4) (5)</sup>	50.00%	105,109	52,555	8.22%	12/1/2006	Variable
Crescent Fountain Place, L.P.	23.85%	105,932	25,265	4.95%	12/1/2011	Fixed
Crescent POC Investors, L.P.	23.85%	97,504	23,255	4.98%	12/1/2011	Fixed
Crescent One Buckhead Plaza, L.P.	35.00%	85,000	29,750	5.47%	4/8/2015	Fixed
Crescent Miami Center, LLC	40.00%	81,000	32,400	5.04%	9/25/2007	Fixed
Crescent 1301 McKinney, L.P. <sup>(6)(7)</sup>	23.85%	73,350	17,494	6.56%	1/9/2008	Variable
Crescent One BriarLake Plaza, L.P.	30.00%	50,000	15,000	5.40%	11/1/2010	Fixed
Crescent Five Post Oak Park, L.P.	30.00%	43,838	13,151	4.82%	1/1/2008	Fixed
Houston PT Three Westlake Office Limited Partnership	20.00%	33,000	6,600	5.61%	9/1/2007	Fixed
Crescent Irvine, LLC <sup>(8)</sup>	40.00%	24,627	9,851	8.08%	3/7/2009	Variable
		\$ 1,183,835	\$ 340,869			



**Resort/Hotel Segment:**

CR Resort, LLC	48.00%	\$	95,000	\$	45,600	5.94%	2/1/2015	Fixed
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**Resort Residential****Development Segment:**

East West Resort Development XIV, L.P., L.L.L.P. <sup>(9)</sup>	41.90%	\$	3,500	\$	1,467	5.00%	4/28/2008	Fixed
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**Other Segment:**

Redtail Capital Partners One, LLC <sup>(10)</sup>	25.00%	\$	41,330	\$	10,333	7.13%	8/9/2008	Variable
Fresh Choice, LLC	40.00%							
GE Capital Franchise Finance Corporation <sup>(11)</sup>			4,477		1,791	10.10%	1/1/2011	Variable
Various Loans and Capital Leases			5,328		2,131	0.00% to 12.00%	1/1/2007 to 12/31/2029	Fixed
		\$	51,135	\$	14,255			

<b>Total Unconsolidated Debt</b>		\$	2,252,412	\$	693,679			
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**Fixed Rate/Weighted**

<b>Average</b>						5.86%	8.9 years	
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**Variable Rate/Weighted**

<b>Average</b>						7.07%	0.8 years	
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**Total Weighted Average**

						6.26%	6.2 years	
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- (1) All unconsolidated debt is secured.
- (2) AmeriCold Realty Trust expects to repay the notes on the Optional Prepayment Date of April 11, 2008.
- (3) The loan is a one-year, interest-only financing that is collateralized by 21 of its owned and six of its leased temperature-controlled warehouses. The loan bears interest at LIBOR plus 125 basis

points.

- (4) Senior Note Note A: \$77.7 million at variable interest rate, LIBOR plus 189 basis points, \$4.5 million at variable interest rate, LIBOR plus 250 basis points with a LIBOR floor of 2.50%. Note B: \$22.9 million at variable interest rate, LIBOR plus 650 basis points with a LIBOR floor of 2.50%. In connection with this loan, we 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.
- (5) We and our JV partner each obtained a separate letter of credit to guarantee the repayment of up to \$4.3 million each of principal of the Main Street Partners, L.P. loan.
- (6) This loan has two one-year extension options.
- (7) In January 2006, Crescent 1301 McKinney, L.P. purchased a one-year 7.0% interest rate cap on 1 month LIBOR with a notional amount of \$73.4 million. Crescent 1301 McKinney, L.P. will be required to purchase a

new cap in January 2007 that limits the interest rate to 1.0:1.0 debt service coverage. The loan bears interest at LIBOR plus 123 basis points.

- (8) This loan has one two-year extension option. The loan bears interest at LIBOR plus 275 basis points. In May 2006, Crescent Irvine, LLC, entered into an interest rate swap agreement struck at 5.34%.
- (9) We provided 41.90% of the initial capitalization and the venture is structured such that we own 26.82% of profits after we receive a preferred return on our invested capital.
- (10) This loan has one one-year extension option. Redtail Capital Partners One, LLC is owned 100% by Redtail. The loans supporting this facility are subject to daily valuations by Morgan Stanley and we are subject to a margin call if the overall leverage exceeds certain thresholds. The loan bears interest as follows: \$28.8 million at LIBOR plus 185 basis points and \$12.5 million at LIBOR plus 170 basis points.

- (11) We guarantee \$1.0 million of this loan. The loan bears interest at LIBOR plus 470 basis points.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**9. NOTES PAYABLE AND BORROWINGS UNDER CREDIT FACILITY**

The significant terms of our primary debt financing arrangements existing as of September 30, 2006, are shown below:

Secured Asset	Maximum Borrowings	Balance Outstanding at September 30, 2006	Interest Calculation	Interest Rate at September 30, 2006
Greenway Plaza	\$ 243,932	\$ 243,932		7.53%
707 17 <sup>th</sup> Street/Denver Marriott Datran Center	70,000	70,000		5.22
	65,000	65,000		4.88
Fairmont Sonoma Mission Inn	55,000	55,000		5.40
The Alhambra	50,000	50,000		5.06
Financial Plaza	39,089	39,089		5.47
The BAC Colonnade Building	37,558	37,558		5.53
Dupont Centre	35,500	35,500		4.31
Peakview Tower	33,000	33,000		5.59
3800 Hughes	32,498	32,498		7.75
301 Congress	26,000	26,000		4.94
3773 Hughes	24,755	24,755		4.98
3993 Hughes	24,216	24,216		6.65
3960 Hughes	22,312	22,312		7.71
Various Office and Resort Residential Assets	38,603	38,603		2.90 to 13.75
Funding I Defeasance	100,462	100,462		7.83
Funding VI Defeasance	7,270	7,270		10.07
	\$ 905,195	\$ 905,195		6.38%

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	\$ 375,000	\$ 375,000		9.25%
	250,000	250,000		7.50
	\$ 625,000	\$ 625,000		8.55%
Ritz-Carlton Dallas Construction	\$ 175,000	\$ 65,150	LIBOR + 225 bps	7.58%
Funding One Assets	165,000	165,000	LIBOR + 147 bps	6.80
Northstar Big Horn Construction	113,992	64,939	Prime 50 bps	7.75
Mezzanine Investments			LIBOR + 150 to 230 bps	
	100,000	38,280		7.29
Mezzanine Investments	100,000	10,000	LIBOR + 140 bps	6.73
Distributions from Funding III, IV & V	75,000	50,000	LIBOR + 200 bps	7.33
Village Walk Construction	62,457	21,468	Prime 50 bps	7.75
Paseo Del Mar Construction	53,100	35,745		7.31
			LIBOR + 175 bps or Prime + 50 bps	
3883 Hughes Construction			LIBOR + 180 bps	
	52,250	19,116		7.26
Jefferson Station Apts Construction			LIBOR + 200 bps	
	41,009	37,231		7.33
Northstar Trailside Construction	36,000	336	LIBOR + 250 bps	7.83
Beaver Creek Landing Construction	33,400	9,813	Prime 115 bps	7.07
DMDC Assets			Prime + 50 bps	
	30,000	15,156		8.75
One Riverfront Construction			Prime + 12.5 bps	
	24,350	7,182		8.38
Gray s Crossing Construction			LIBOR + 250 bps	
	22,209	11,483		7.84
Old Greenwood Construction	21,000	19,008	Prime	8.25
Various Office and Resort Residential Assets	72,689	38,470	LIBOR + 125 to 450 bps or Prime 75 to 100 bps	6.58 to 9.25
	\$ 1,177,456	\$ 608,377		7.36%
	\$ 380,335	\$ 301,000	LIBOR + 160 bps	6.93%
	51,547	51,547	LIBOR + 200 bps	7.49

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LIBOR + 200 bps

25,774	25,774	7.49
\$ 457,656	\$ 378,321	7.04%
\$ 3,165,307	\$ 2,516,893	7.26% <sup>(16)</sup>

3.2 years

23

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**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

- (1) Obtaining this loan was a reconsideration event under FIN 46R. We determined that the entity that operates Fairmont Sonoma Mission Inn is a VIE of which we are the primary beneficiary. This entity was previously consolidated under other GAAP; therefore there is no impact to our Consolidated Financial Statements.
- (2) We assumed these loans in connection with the Hughes Center properties acquisitions. The following table lists the unamortized premium associated with the assumption of above market interest rate debt which is included in the balance outstanding at



September 30,  
2006, the  
effective interest  
rate of the debt  
including the  
premium and  
the outstanding  
principal  
balance at  
maturity:

(dollars in thousands)

		Unamortized	Effective	Balance
	Loan	Premium	Rate	at
				Maturity
Allstate Note		\$ 1,004	5.19%	\$ 20,771
Metropolitan Life Note VI		1,200	5.68%	19,239
Northwestern Life Note II		248	3.80%	8,663
Total		\$ 2,452		\$ 48,673

The premium was recorded as an increase in the carrying amount of the underlying debt and is being amortized using the effective interest rate method as a reduction of interest expense through maturity of the underlying debt.

- (3) We have purchased U.S. Treasuries and government sponsored agency securities, or defeasance investments, to substitute as collateral for these loans. The cash flow from the defeasance investments matches the debt service payments for each loan.
- (4) To incur any additional debt, the indenture requires us to meet thresholds for a number of customary financial and other covenants including maximum leverage ratios, minimum debt service coverage ratios, maximum secured debt as a percentage of total undepreciated assets, and ongoing maintenance of unencumbered assets. Additionally, as long as the 2009 Notes are not rated investment grade, there are restrictions on our ability to make certain payments, including distributions to shareholders and investments.
- (5) At our option, these notes can be called beginning in April 2006 for 104.6%, in April 2007 for 102.3% and beginning in April 2008 and thereafter for par.
- (6) This loan has three one-year extension options.
- (7) This note consists of a \$110.0 million senior loan at LIBOR plus 108 basis points, a \$40.0 million first mezzanine loan at LIBOR plus 225 basis points and a \$15.0 million second mezzanine loan at LIBOR plus 225 basis points.
- (8) This loan has one one-year extension option. The loans supporting this facility are subject to daily valuations by Morgan Stanley and Goldman Sachs, respectively, and we are subject to a margin call if the overall leverage of the facility exceeds certain thresholds.
- (9) This loan has two one-year extension options.

- (10) Our partner provides a full guarantee of this loan.
- (11) The rate on this loan decreases to LIBOR plus 170 basis points when the following are met: 85% leased and 75% occupied.
- (12) This loan has one six-month extension option.
- (13) This loan has one one-year extension option.
- (14) Availability under the line of credit is subject to certain covenants including limitations on total leverage, fixed charge ratio, debt service coverage ratio, minimum tangible net worth, and a specific mix of office and hotel assets and average occupancy of Office Properties. At September 30, 2006, the maximum borrowing capacity under the credit facility was \$380.3 million. The outstanding balance excludes letters of credit issued under our credit facility of \$13.8 million which reduces our maximum borrowing capacity. The spread to LIBOR on this loan decreases to 150 basis points if we reduce leverage below 45% and it increases to 175 basis points if we exceed 55% leverage.
- (15) In 2005, we completed private offerings of \$75.0 million of trust preferred securities through our trust subsidiaries. The securities are callable at no premium after June and July 2010.
- (16) The overall weighted average interest rate does not include the effect of our cash flow hedge agreements. Including the effect of these agreements, the overall weighted average interest rate would have been 7.22%.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

(in thousands)	<b>Balance</b>	<b>Percentage of Debt<sup>(1)</sup></b>	<b>Weighted Average Rate</b>	<b>Weighted Average Maturity</b>
Fixed Rate Debt	\$ 1,530,195	61%	7.27%	3.0 years
Variable Rate Debt	986,698	39	7.24	3.4 years
Total Debt	\$ 2,516,893	100%	7.26% <sup>(2)</sup>	3.2 years

(1) Balance excludes hedges. The percentages for fixed rate debt and variable rate debt, including the \$301.8 million of hedged variable rate debt, are 72.8% and 27.2%, respectively.

(2) Including the effect of hedge arrangements, the overall weighted average interest rate would have been 7.22%.

Listed below are the aggregate principal payments by year required as of September 30, 2006, under our indebtedness. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	<b>Secured Debt</b>	<b>Defeased Debt</b>	<b>Unsecured Debt</b>	<b>Total<sup>(1)</sup></b>
2006	\$ 3,098	\$ 507	\$	\$ 3,605
2007	423,395	100,279	250,000	773,674
2008	244,909	289	301,000	546,198
2009	282,467	320	375,000	657,787
2010	134,051	6,337		140,388

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Thereafter	317,920		77,321	395,241
	\$ 1,405,840	\$ 107,732	\$ 1,003,321	\$ 2,516,893

- (1) Based on contractual maturity and does not include extension options on Bank of America III Loan, Societe Generale Loan, Guaranty Bank Loan, KeyBank I Construction Loan, California Bank & Trust Loan, US Bank I Loan, Morgan Stanley II Loan, GACC Note or Goldman Sachs Loan.

We are generally obligated by our 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 our loans can trigger an increase in interest rates, an acceleration of payment on the loan in default, and for our secured debt, foreclosure on the property securing the debt. In addition, a default by us or any of our subsidiaries with respect to any indebtedness in excess of \$5.0 million generally will result in a default under the Credit Facility, the 2007 Notes, 2009 Notes, KeyBank I Loan, Morgan Stanley II Loan, Goldman Sachs Loan, Societe Generale I Construction Loan and KeyBank II Loan after the notice and cure periods for the other indebtedness have passed. As of September 30, 2006, no event of default had occurred, and we were in compliance with all covenants related to our outstanding debt. Our 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 nine months ended September 30, 2006, there were no circumstances that required prepayment penalties or increased collateral related to our existing debt.

In addition to the subsidiaries listed in Note 1, Organization and Basis of Presentation, certain other of our subsidiaries 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 grouped based on the Properties to which they relate, are: Funding One Properties (CREF One Parent, L.P., CREF One Parent GP, LLC, CREF One Holdings, L.P., CRE Management One, LLC); Funding III Properties (CRE Management III Corp.); Funding IV Properties (CRE Management IV Corp.); Funding V Properties (CRE Management V Corp.); Funding VIII Properties (CRE Management VIII, LLC); Funding XII Properties (CREF XII Parent GP, LLC, CREF XII Parent, L.P., CREF XII Holding GP, LLC, CREF XII 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 Building (CEI Colonnade Holdings, LLC); Crescent Finance Company, Crescent Real Estate Capital MS, L.P. and Crescent Real Estate Capital GS, L.P.



Table of Contents

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Warehouse Facilities**

On March 24, 2006, we entered into a Master Repurchase Agreement with Morgan Stanley Bank. Pursuant to the agreement, up to 70% of the value of the mezzanine loans that we make can be financed up to a maximum principal amount of \$100.0 million. The investments can be financed through March 2008, after which four equal payments are due quarterly. The loan has a provision for a one-year extension which is subject to Morgan Stanley's approval. The interest rate and advance percentage associated with each draw is dependent on the loan-to-value ratio at the underlying property(ies) and the purchase rate as specified in the Master Repurchase Agreement. The loan bears interest ranging from LIBOR plus 140 basis points to 230 basis points and is secured by the note receivable associated with each advance. At September 30, 2006, approximately \$38.3 million with a weighted average interest rate of 7.29% was outstanding under this agreement.

On May 5, 2006, we entered into a Master Repurchase Agreement with Goldman Sachs Mortgage Company. Pursuant to the agreement, up to 80% of the value of the loans that we make can be financed up to a maximum principal amount of \$100.0 million. The investments can be financed through May 2009, at which full payment is due. The financing and payment can be extended one year subject to Goldman Sachs' approval. If extended, payments will be made in twelve monthly installments during the extension period. The interest rate and advance percentage associated with each draw is dependent on the loan-to-value ratio at the underlying property(ies) and the purchase rate as specified in the Master Repurchase Agreement. The loan bears interest ranging from LIBOR plus 110 basis points to 250 basis points and is secured by the note receivable associated with each advance. At September 30, 2006, approximately \$10.0 million with an interest rate of 6.73% was outstanding under this agreement.

**10. INTEREST RATE SWAPS AND CAPS**

We use derivative financial instruments to convert a portion of our variable rate debt to fixed rate debt and to manage the fixed to variable rate debt ratio. As of September 30, 2006, we had interest rate swaps and interest rate caps designated as cash flow hedges, 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* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*.

The following table shows information regarding the fair value of our interest rate swaps and caps designated as cash flow hedge agreements, which are included in the Other assets, net and Accounts payable, accrued expenses and other liabilities line items in the Consolidated Balance Sheets, and additional interest expense and unrealized gains (losses) recorded in Accumulated other comprehensive income, or OCI, for the nine months ended September 30, 2006.

Effective Date (in thousands)	Notional Amount	Maturity Date	Reference Rate	Fair Market Value	Additional (Reduction) Interest Expense	Change in Unrealized Gains (Losses) in OCI
<b>Interest rate swaps</b>						
2/15/03	\$ 100,000	2/15/06	3.26%	\$	\$ (147)	\$ (138)
2/15/03	100,000	2/15/06	3.25%		(148)	(139)
9/02/03	200,000	9/01/06	3.72%		(1,603)	(1,264)
1/17/05	36,000	10/16/06	3.74%	24	6 <sup>(1)</sup>	(181)
4/25/06	58,047	12/26/07	5.20%	(90)	(1)	(90)
9/29/06	200,000	9/4/07	5.20%	(16)	(1)	(16)

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				\$ (82)	\$ (1,893)	\$ (1,828)
<b>Interest rate caps</b>						
1/07/05	7,800	2/01/08	6.00%	2		(4)
				\$ (80)	\$ (1,893)	\$ (1,832)

(1) A portion of the interest on the debt that this swap is hedging is capitalized.

In addition, three of our unconsolidated companies have interest rate caps and swaps designated as cash flow hedges of which our portion of change in unrealized gains reflected in OCI was \$(0.1) million for the nine months ended September 30, 2006.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

We have designated our cash flow hedge agreements as cash flow hedges of LIBOR-based monthly interest payments on a designated pool of variable rate LIBOR indexed debt. The interest rate swaps have been and are expected to remain 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 recognized in earnings as interest expense when the hedged items impact earnings. If an interest rate swap falls outside 80%-125% effectiveness for a quarter, all changes in the fair value of the 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.

**11. MARKETABLE SECURITIES**

The following tables present the cost, fair value and unrealized gains and losses as of September 30, 2006, and December 31, 2005, and the realized gains and change in OCI for the nine months ended September 30, 2006 and 2005, for our marketable securities.

(in thousands)	As of September 30, 2006			As of December 31, 2005		
	Cost	Fair Value	Unrealized Gain/(Loss)	Cost	Fair Value	Unrealized Gain/(Loss)
Type of Security						
Held to maturity <sup>(1)</sup>	\$ 117,956	\$ 117,513	\$ (443)	\$ 274,134	\$ 271,659	\$ (2,475)
Trading <sup>(2)</sup>	648	702	N/A	690	728	N/A
Available for sale <sup>(3)</sup>	9,916	9,843	(73)	20,284	20,852	568
Total	\$ 128,520	\$ 128,058	\$ (516)	\$ 295,108	\$ 293,239	\$ (1,907)

(in thousands)	For the nine months ended September 30, 2006		For the nine months ended September 30, 2005	
	Realized Gain	Change In OCI	Realized Gain	Change In OCI
Type of Security				
Held to maturity <sup>(1)</sup>	\$	\$ N/A	\$	\$ N/A
Trading <sup>(2)</sup>	10	N/A	138	N/A
Available for sale <sup>(3)</sup>	123	(641)	(19)	(338)
Total	\$ 133	\$ (641)	\$ 119	\$ (338)

(1) Held to maturity securities are carried at amortized cost and consist of \$113.6 million of defeasance investments, included in Defeasance investments in the



accompanying  
Consolidated  
Balance Sheets,  
which consist of  
U.S. Treasury  
and government  
sponsored  
agency  
securities  
purchased for  
the sole purpose  
of funding debt  
service  
payments on  
LaSalle Note I,  
LaSalle Note II  
and the Nomura  
Funding VI note  
and \$4.4 million  
of bonds. In  
March 2006,  
LaSalle Note II  
was paid off  
with the  
proceeds from  
maturities of  
defeasance  
investment  
securities.

- (2) Trading  
securities  
primarily  
consist of  
marketable  
securities  
purchased in  
connection with  
our 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 that we intend to hold for an indefinite period of time. At September 30, 2006, these securities consist of \$8.6 million of bonds, all of which were sold in the fourth quarter 2006, and \$1.3 million of preferred stock which 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.

Table of Contents

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. COMMITMENTS AND CONTINGENCIES****Guarantee Commitments**

The FASB issued Interpretation No. 45, *Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45), requiring a guarantor to disclose its guarantees. For our 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 us to provide additional collateral to support the guarantees. We recorded a liability for the Fresh Choice and U.S. Bank National Association guarantees in an amount not significant to our operations. We have not recorded a liability associated with the other guarantees as they were entered into prior to the adoption of FIN 45. Our guarantees in place as of September 30, 2006, are listed in the table below.

(in thousands)	<b>Guaranteed Amount Outstanding at September 30, 2006</b>	<b>Maximum Guaranteed Amount at September 30, 2006</b>
<b>Debtor</b>		
CRDI Eagle Ranch Metropolitan District Letter of Credit <sup>(1)</sup>	\$ 7,845	\$ 7,845
Main Street Partners, L.P. Letter of Credit <sup>(2) (3)</sup>	4,250	4,250
Fresh Choice, LLC <sup>(4)</sup>	1,000	1,000
CRDI U.S. Bank National Association <sup>(5)</sup>	8,449	20,393
<b>Total Guarantees</b>	<b>\$ 21,544</b>	<b>\$ 33,488</b>

(1) We provide a \$7.8 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) We and our 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.
- (4) We provide a guarantee of up to \$1.0 million to GE Capital Franchise Financing Corporation as part of Fresh Choice's bankruptcy reorganization.
- (5) We entered into a Payment and Completion Guaranty with U.S. Bank National Association for the repayment of bonds that were issued by the Northstar Community Housing Corporation to fund construction of an employee housing project. The initial guaranty of \$20.4 million decreases to

\$5.1 million  
once  
construction is  
complete and  
certain  
conditions are  
met and  
decreases  
further and is  
eventually  
released as  
certain debt  
service coverage  
ratios are  
achieved.

**Other Commitments**

In July 2005, we purchased comprehensive insurance that covers us, contractors and other parties involved in the construction of the Ritz-Carlton hotel and condominium project in Dallas, Texas. Our insurance carrier, which will pay the associated claims as they occur under this program and will be reimbursed by us within our deductibles, requires us to provide a \$1.7 million letter of credit supporting payment of claims. We believe there is a remote likelihood that payment will be required under the letter of credit.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. MINORITY INTERESTS**

Minority interests in the Operating Partnership represent the proportionate share of the equity in the Operating Partnership of limited partners other than Crescent. The ownership share of limited partners other than Crescent is evidenced by Operating Partnership units. Of the total outstanding amount of Operating Partnership units, 1,292,500 vested restricted units (2,585,000 common share equivalents) are subject to redemption for cash as part of the 2004 and 2005 Unit Plans. The Operating Partnership pays a regular quarterly distribution to the holders of Operating Partnership units.

Each Operating Partnership unit generally may be exchanged for either two common shares of Crescent or, at the election of Crescent, cash equal to the fair market value of two common shares at the time of the exchange. When a unitholder exchanges a unit, Crescent's percentage interest in the Operating Partnership increases. During the nine months ended September 30, 2006, there were 459,793 units exchanged for 919,586 common shares of Crescent.

Minority interests in real estate partnerships represent joint venture or preferred equity partners' proportionate share of the equity in certain consolidated real estate partnerships. Income in the real estate partnerships is allocated to minority interests based on weighted average percentage ownership during the year.

The following table summarizes minority interests as of September 30, 2006 and December 31, 2005:

(in thousands)	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Limited partners in the Operating Partnership	\$ 41,763	\$ 85,338
Limited partners in the Operating Partnership Units subject to redemption	56,379	28,481
Limited partners in the Operating Partnership Unvested units subject to redemption	3,777	
Development joint venture partners Resort Residential Development Segment	31,815	32,228
Joint venture partners Office Segment	17,161	15,354
Joint venture partners Resort/Hotel Segment	5,446	5,853
Other	76	127
	<b>\$ 156,417</b>	<b>\$ 167,381</b>

The following table summarizes the minority interests' share of net income (loss) before discontinued operations for the nine months ended September 30, 2006 and 2005:

(in thousands)	<b>September 30, 2006</b>	<b>September 30, 2005</b>
Limited partners in the Operating Partnership	\$ 1,391	\$ (3,983)
Development joint venture partners Resort Residential Development Segment	2,802	4,082
Joint venture partners Office Segment	(524)	168
Joint venture partners Resort/Hotel Segment	(48)	(546)
Other	(52)	129
	<b>\$ 3,569</b>	<b>\$ (150)</b>



**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**14. SHAREHOLDERS EQUITY****Distributions**

The following table summarizes the distributions paid or declared to common shareholders, unitholders and preferred shareholders during the nine months ended September 30, 2006.  
(dollars in thousands, except per share amounts)

Security	Per Share Dividend/ Distribution	Total Amount	Record Date	Payment Date	Annual Dividend/ Distribution
Common Shares/Units <sup>(1)</sup>	\$0.375	\$46,851 <sup>(2)</sup>	1/31/06	2/15/06	\$ 1.50
Common Shares/Units <sup>(1)</sup>	0.375	45,532 <sup>(2)</sup>	4/28/06	5/15/06	1.50
Common Shares/Units <sup>(1)</sup>	0.375	45,852 <sup>(2) (3)</sup>	7/31/06	8/15/06	1.50
Series A Preferred Shares	0.422	5,991	1/31/06	2/15/06	1.6875
Series A Preferred Shares	0.422	5,991	4/28/06	5/15/06	1.6875
Series A Preferred Shares	0.422	5,991	7/31/06	8/15/06	1.6875
Series B Preferred Shares	0.594	2,019	1/31/06	2/15/06	2.3750
Series B Preferred Shares	0.594	2,019	4/28/06	5/15/06	2.3750
Series B Preferred Shares	0.594	2,019	7/31/06	8/15/06	2.3750

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

(2) Does not include dividends on unvested restricted units, which will be paid in arrears upon vesting.

(3) Includes dividends paid on March 17, 2006, for restricted units that vested March 10, 2006.

**15. STOCK AND UNIT BASED COMPENSATION****Stock and Unit Option Plans**



Effective January 1, 2006, we adopted SFAS No. 123R using the modified prospective application method which requires, among other things, that we recognize compensation cost for all options outstanding at January 1, 2006, for which the requisite service has not yet been rendered. Effective January 1, 2003, we adopted the fair value expense recognition provisions of SFAS No. 123 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. The compensation expense recognized for stock and unit options for the nine months ended September 30, 2006, was approximately \$1.3 million, of which \$1.1 million relates to additional expense recognized as a result of the adoption of SFAS No. 123R. For the nine months ended September 30, 2005, compensation expense recognized for stock and unit options was approximately \$0.1 million.

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2006 and 2005 was \$1.83 and \$1.05 respectively. The total intrinsic value of options exercised during the nine months ended September 30, 2006 and 2005, was \$3.3 million and \$2.3 million, respectively. The fair value of each option is estimated at the date of grant using the Black-Scholes option-pricing model based on the expected weighted average assumptions in the following table. We estimated the expected term of options granted during the quarter by adding the vesting term plus the contractual term divided by two. We estimated stock price volatility using historical volatility data. The risk-free rate for the periods within the contractual life is based on the U.S. Treasury yield curve in effect at the time of grant.

	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Expected term	6.5 years	10 years
Risk-free rate	4.6%	4.2%
Expected dividends	7.4%	8.9%
Expected volatility	22.2%	24.9%

As of September 30, 2006, there was approximately \$1.2 million of total unrecognized compensation cost related to nonvested stock and unit options. That cost is expected to be recognized over a weighted average period of 1.3 years.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

With respect to our stock options which were granted prior to 2003 and prior to the adoption of SFAS No. 123, we accounted for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25, and related Interpretations. Had compensation cost been determined based on the fair value at the grant dates for awards under the plans consistent with SFAS No. 123R, our net loss and loss per share would have been:

	<b>For the three months ended September 30, 2005</b>	<b>For the nine months ended September 30, 2005</b>
(in thousands, except per share amounts)		
Net income available to common shareholders, as reported	\$ 71,634	\$ 48,786
Add: Stock-based employee compensation expense included in reported net income	4,294	7,375
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest	(4,695)	(8,591)
Pro forma net income available to common shareholders	\$ 71,233	\$ 47,570
Income per share:		
Basic and diluted as reported	\$ 0.71	\$ 0.49
Basic and diluted pro forma	\$ 0.71	\$ 0.48

Crescent has two stock incentive plans, the 1995 Stock Incentive Plan and the 1994 Stock Incentive Plan. The 1995 Plan and the 1994 Plan expired on June 11, 2005, and March 31, 2004, respectively. The Operating Partnership has two unit incentive plans, the 1995 Unit Incentive Plan and the 1996 Unit Incentive Plan. The 1995 Unit Plan expired on June 30, 2005, and the 1996 Unit Plan expired on July 16, 2006. The Operating Partnership has also granted unit options under the Operating Partnership agreement. These plans are collectively referred to as The Plans. Under The Plans, options were granted at a price not less than the market value of the shares on the date of grant, generally vest over five years of continuous service and expire ten years from the date of grant. We have a policy of issuing new shares to satisfy share option exercises under shareholder approved plans.

On February 19, 2002, John Goff, Vice-Chairman of our Board of Trust Managers and our Chief Executive Officer, was granted the right to earn 300,000 restricted shares under the 1995 Plan. These shares vest at 100,000 shares per year on February 19, 2005, February 19, 2006, and February 19, 2007. Compensation expense is being recognized on a straight-line basis. For each of the nine months ended September 30, 2006 and 2005, approximately \$0.8 million was recorded as compensation expense related to this grant.

A summary of the status of The Plans as of September 30, 2006, and changes during the nine months then ended is presented in the table below.

	<b>Shares</b>	<b>Wtd. Avg.</b>	<b>Years Remaining</b>	<b>Aggregate</b>
	<b>Underlying Stock and Unit Options</b>	<b>Wtd. Avg. Exercise Price Per Share</b>	<b>Contractual Term</b>	<b>Intrinsic Value</b>
(in thousands, except per share amounts)				
Outstanding at January 1, 2006	12,363	\$ 18		
Granted	35	20		

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Exercised	(1,296)		18		
Forfeited	(8)		15		
Expired	(8)		18		
Outstanding at September 30, 2006	11,086	\$	19	4.8	\$ 42,316
Exercisable at September 30, 2006	9,363	\$	19	4.4	\$ 34,977

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2004 and 2005 Unit Plans**

The 2004 Unit Plan provides for the issuance by the Operating Partnership of up to 1,802,500 restricted units (3,605,000 common share equivalents) to our officers. Restricted units granted under the 2004 Unit Plan vest in 20% increments when the average closing price of Crescent common shares on the New York Stock Exchange for the immediately preceding 40 trading days equals or exceeds \$19.00, \$20.00, \$21.00, \$22.50 and \$24.00. The 2005 Unit Plan provides for the issuance by the Operating Partnership of up to 1,275,000 restricted Units (2,550,000 common share equivalents). Restricted units granted under the 2005 Unit Plan vest in 20% increments when the average closing price of Crescent Common Shares on the New York Stock Exchange for the immediately preceding 40 trading days equals or exceeds \$21.00, \$22.50, \$24.00, \$25.50 and \$27.00. Any restricted unit that is not vested on or prior to June 30, 2010, will be forfeited. Each vested restricted unit will be exchangeable, beginning on the second anniversary of the date of grant, for cash equal to the value of two Crescent common shares based on the closing price of the common shares on the date of exchange, and subject to a six-month hold period following vesting, unless, prior to the date of the exchange, Crescent requests and obtains shareholder approval authorizing it, at its discretion, to deliver instead two common shares in exchange for each such restricted unit. Regular quarterly distributions accrue on unvested restricted units and are payable upon vesting of the restricted units.

We obtained a third-party valuation to determine the fair value of the restricted units issued under the 2004 and 2005 Unit Plans. The third-party used a lattice-based valuation model which incorporated a range of assumptions for inputs including the expected weighted average assumptions in the following table.

	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Expected term	1.5 to 5.2 years	1.5 to 5.5 years
Risk-free rate	3.8%	3.8%
Expected dividends	9.0%	9.0%
Expected volatility	23.0%	23.1%

The weighted average grant-date fair value of the restricted units granted during the nine months ended September 30, 2006 and 2005, was \$7.31 and \$6.19, respectively, which is being amortized on a straight-line basis over the related service period, except for when performance targets are achieved. For the nine months ended September 30, 2006 and 2005, approximately \$9.0 million and \$6.4 million was recorded as compensation costs related to the 2004 and 2005 Unit Plans, respectively, of which approximately \$0.8 million and \$0.6 million was capitalized, respectively.

A summary of the status of nonvested restricted units (shown in common share equivalents) is presented below:  
 (share amounts in thousands)

<b>Nonvested Units</b>	<b>Shares Underlying Units</b>	<b>Weighted- Average Grant-Date Fair Value</b>
Nonvested at January 1, 2006	4,294	\$ 6.54
Granted	25	7.31
Vested	(1,148)	6.66
Forfeited		
Nonvested at September 30, 2006	3,171	\$ 6.49

As of September 30, 2006, there was approximately \$16.4 million of total unrecognized compensation cost related to nonvested units. That cost is expected to be recognized over a weighted average period of 2.4 years.

On March 10, 2006, the 40-day average closing price of Crescent's common shares reached the third performance target under the 2004 Unit Plan and first performance target under the 2005 Unit Plan. Upon achieving these targets, 574,000 units (1,148,000 common share equivalents) vested. Of this amount, 331,750 units (663,500 common share equivalents) may be exchanged for cash beginning on December 1, 2006, and 239,750 units (479,500 common share equivalents) in 2007 and 2,500 units (5,000 common share equivalents) in 2008 unless, prior to the date of exchange, Crescent obtains shareholder approval authorizing it, in its discretion, to deliver instead two common shares for each such restricted unit. The total grant-date fair value of units vested during the nine months ended September 30, 2006 and 2005, was \$7.6 million and \$5.1 million, respectively.

**Table of Contents**

**CRESCENT REAL ESTATE EQUITIES COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. INCOME TAXES**

Deferred income taxes reflect the net tax effect of temporary differences between the financial reporting carrying amounts of assets and liabilities of the taxable consolidated entities and the income tax basis. For the nine months ended September 30, 2006, the taxable consolidated entities were comprised of our taxable REIT subsidiaries.

We intend to maintain our qualification as a REIT under Section 856 of the U.S. Internal Revenue Code of 1986, as amended (the Code). As a REIT, we generally will not be subject to federal corporate income taxes as long as we satisfy certain technical requirements of the Code, including the requirement to distribute 90% of our REIT taxable income to our shareholders. Accordingly, we do not believe that we will be liable for current income taxes on our REIT taxable income at the federal level or in most of the states in which we operate. We consolidate certain taxable REIT subsidiaries, which are subject to federal and state income tax. For the nine months ended September 30, 2006 and 2005, our income tax benefit from continuing operations was \$7.7 million and \$2.3 million, respectively. Our \$7.7 million income tax benefit at September 30, 2006, consists primarily of \$9.2 million for the Resort Residential Development Segment, which includes \$1.7 million related to an IRS audit settlement of a charitable contribution deduction, and \$1.7 million for the Resort/Hotel Segment, partially offset by \$3.2 million tax expense for the Office Segment.

At September 30, 2006, we had a net deferred tax asset of \$14.0 million. 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. The change in the valuation allowance was not significant for the nine months ended September 30, 2006.

**17. RELATED PARTY TRANSACTIONS**

**Loans to Employees and Trust Managers of the Company for Exercise of Stock Options and Unit Options**

As of September 30, 2006, we had approximately \$37.9 million in loan balances outstanding reflected in the Additional paid-in capital line item in the Consolidated Balance Sheets, inclusive of current interest accrued of approximately \$0.2 million, to certain of our employees and trust managers on a recourse basis under stock and unit incentive plans pursuant to an agreement approved by our Board of Trust Managers and its Executive Compensation Committee. The employees and the trust managers used the loan proceeds to acquire common shares of Crescent pursuant to the exercise of vested stock and unit options. The loans bear interest at 2.52% per year, payable quarterly, 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 \$37.9 million total outstanding loans at September 30, 2006. No conditions exist at September 30, 2006 which would cause any of the loans to be in default.

**Table of Contents**

**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**

<u>Forward-Looking Statements</u>	35
<u>Overview</u>	36
<u>Recent Developments</u>	37
<u>Results of Operations</u>	42
<u>Liquidity and Capital Resources</u>	48
<u>Debt Financing</u>	53
<u>Unconsolidated Investments</u>	55
<u>Significant Accounting Policies</u>	56
<u>Funds from Operations</u>	57

**Table of Contents**

**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 our Form 10-K for the year ended December 31, 2005. In management's 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, will and may.

Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, our actual results could differ materially from those described in the forward-looking statements.

The following factors might cause such a difference:

- § The results of our review of our strategic alternatives;
- § Our ability, at our office properties to timely lease unoccupied square footage and timely re-lease occupied square footage upon expiration or termination on favorable terms, which continue to be adversely affected by existing real estate conditions (including the vacancy levels in particular markets, decreased rental rates and competition from other properties) and may also be adversely affected by general economic downturns;
- § Adverse changes in the financial condition of existing office tenants and the ability of these office tenants to pay rent;
- § Lack of control and limited flexibility in dealing with our jointly-owned investments;
- § Our ability to reinvest available funds at anticipated returns and consummate anticipated office acquisitions and dispositions on favorable terms and within anticipated time frames;
- § The ability of El Paso Energy to satisfy its obligations to pay rent and termination fees in accordance with the terms of its agreement with us;
- § The concentration of a significant percentage of our office assets in Texas;
- § The ability of our resort residential segment to develop, sell and deliver units and lots within anticipated time frames and within anticipated profit margins;
- § Deterioration in the market or in the economy generally and increases in construction costs associated with development of residential land or luxury residences, including single-family homes, town homes and condominiums;
- § Financing risks, such as our 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, our ability to meet financial and other covenants, liquidity risks related to the use of warehouse facilities governed by repurchase agreements to fund certain of our mezzanine investments and our ability to consummate financings and refinancings on favorable terms and within any applicable time frames;
- § Deterioration in our resort/business-class hotel markets or in the economy generally and increase in construction costs associated with the development of resort/hotel properties;



- § The inherent risk of mezzanine investments, which are structurally or contractually subordinated to senior debt, may become unsecured as a result of foreclosure by a senior lender on its collateral, and are riskier than conventional mortgage loans;
- § The existence of complex regulations relating to our 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
- § Other risks detailed from time to time in our filings with the SEC.

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

**Table of Contents**

**Overview**

We are a REIT with assets and operations divided into four investment segments: Office, Resort Residential Development, Resort/Hotel and Temperature-Controlled Logistics. Our strategy has two key elements.

First, we seek to capitalize on our award-winning office management platform. We intend to accomplish this by investing in premier office properties in select markets that offer attractive returns on invested capital. Our strategy is to align ourselves with institutional partners and become a significant manager of institutional capital. We believe this partnering makes us more competitive in acquiring new properties, and it enhances our return on equity by 300 to 600 basis points when compared to the returns we receive as a 100% owner. Where possible, we strive to negotiate performance-based incentives that allow for additional equity to be earned if return targets are exceeded. We were able to realize this increased return on equity from our promoted interest earned on the sale of Five Houston Center in December 2005 and Four Westlake Park in September 2006.

Consistent with this strategy, we continually evaluate our existing portfolio for potential joint-venture opportunities. We currently hold 47% of our office portfolio in joint ventures, and we will continue to joint venture more assets in our portfolio, which will enable us to further increase our return on equity as well as gain access to equity for reinvestment.

We also seek to selectively develop new office properties where we see the opportunity for attractive returns. In August 2006, we completed, with JMI Realty, a 232,330 square-foot, three-building complex in San Diego, California. We are also developing a 239,000 square-foot office building as an addition to the Hughes Center complex in Las Vegas, Nevada. We are co-developing with Hines a 267,000 square-foot office building in Irvine, California, and we are co-developing, with Champion Partners, a 144,380 square-foot, two-building office complex in Austin, Texas.

Second, we invest in real estate businesses that offer returns equal to or superior to what we are able to achieve in our office investments. We develop and sell residential properties in resort locations primarily through Harry Frampton and his East West Partners development team with the most significant project in terms of future cash flow being our investment in Tahoe Mountain Resorts in California. This development encompasses more than 2,500 total lots and units, of which 399 have been sold, 72 are currently in inventory and over 2,110 are scheduled for development over the next 14 years, and is expected to generate in excess of \$4.7 billion in sales. We expect our investment in Tahoe to be a long-term source of earnings and cash flow growth as new projects are designed and developed. We view our resort residential developments as a business and believe that, beyond the net present value of existing projects, there is value in our strategic relationships with the development teams and our collective ability to identify and develop new projects. In addition, we sometimes serve as the primary developer, such as The Ritz-Carlton-Phases I and II. Additionally, we provide mezzanine financing to other office, resort, residential and hotel investors where we see attractive returns relative to owning the equity. We have approximately \$186.2 million of mezzanine financing investments, of which approximately \$107.4 million relates to Office Properties, outstanding at September 30, 2006.

In 2005, we also completed the recapitalization of our Canyon Ranch investment. We believe Canyon Ranch is well positioned for significant growth, with a large portion of this growth over the near term coming from the addition of several Canyon Ranch Living communities. The focal point of these communities is a large, comprehensive wellness facility. Canyon Ranch will partner with developers on these projects and earn fees for the licensing of the brand name, design and technical services, and the ongoing management of the facilities. Canyon Ranch currently has one such development under construction in Miami Beach, has finalized an agreement that will pave the way for the development of a Canyon Ranch Living community in Chicago, Illinois, and others are under consideration or in negotiation.

During 2006, we have conducted an extensive review of our strategic alternatives, and in late August received an offer to purchase certain assets. Our Board of Trust Managers established a special committee of independent trust managers to assist in its consideration of the strategic alternatives and to respond to the offer that was received. The Special Committee hired an independent investment banker and counsel to assist with its review. The Special Committee has rejected the offer received, and we are continuing to review our strategic alternatives. We do not expect to make any further announcements or provide further updates regarding our strategic review until the review

has been completed or an announcement is otherwise required by federal securities laws.

**Table of Contents****Recent Developments****Office Segment****Joint Ventures***Four Westlake Park*

On September 26, 2006, we completed the sale of Four Westlake Park on behalf of Houston PT Four Westlake Office Limited Partnership, the joint venture which was owned 80% by an affiliate of GE and 20% by us. The sale generated proceeds to the joint venture, net of selling costs, of approximately \$121.3 million and a net gain of approximately \$55.0 million. Our share of the net gain, including a promoted interest of approximately \$14.7 million, was approximately \$24.2 million. Our share of the proceeds was approximately \$28.7 million, which was used to pay down our credit facility.

*Paseo Del Mar*

The development of Paseo Del Mar, 232,330 square foot, three-building office complex in the Del Mar Heights submarket of San Diego, California, was completed in August 2006. The property is owned by Crescent-JMIR Paseo Del Mar LLC, a consolidated joint venture between Crescent and JMI Realty, in which Crescent owns 80%. We will manage the property on a fee basis.

*Chase Tower*

On June 20, 2006, we completed the sale of Chase Tower on behalf of Austin PT BK One Tower Office Limited Partnership, the joint venture which was owned 80% by an affiliate of GE and 20% by us. The sale generated proceeds to the joint venture, net of selling costs, of approximately \$68.8 million and a net gain of approximately \$10.1 million. Our net gain was approximately \$4.3 million, inclusive of the recognition of the deferred gain from the joint venture of the property in 2001. Our share of the proceeds was approximately \$5.6 million, which was used to pay down the credit facility.

*Parkway at Oakhill*

On March 31, 2006, we entered into a joint venture arrangement, C-C Parkway Austin, L.P. (Parkway), with Champion Partners. The joint venture has committed to co-develop a 144,380 square-foot, two-building office complex in Austin, Texas. The venture is structured such that we own a 90% interest and Champion Partners owns the remaining 10% interest. In connection with the joint venture, Parkway entered into a maximum \$18.3 million construction loan with JPMorgan Chase Bank. Our equity commitment to the joint venture was \$8.2 million, of which \$7.0 million has been funded as of September 30, 2006. The development, which is currently underway, is scheduled for delivery in the second quarter of 2007. Upon completion, we will manage the property on behalf of the joint venture.

**Asset Purchase**

(in millions)				<b>Purchase Price</b>
<b>Date</b>	<b>Property</b>	<b>Location</b>		
January 23, 2006	Financial Plaza	Class A Office Property	Phoenix, Arizona	\$55.0 <sup>(1)</sup>

- (1) The acquisition was funded by the assumption of a \$23.6 million loan from Allstate, a new \$15.9 million loan from Allstate and a draw on our credit facility.

This property is wholly-owned.

**Asset Sale**

(in millions)

<b>Date</b>	<b>Property</b>	<b>Location</b>	<b>Proceeds</b>
February 17, 2006	Waterside Commons Class A Office Property	Dallas, Texas	\$24.8 <sup>(1)</sup>

(1) We previously recorded an impairment charge of approximately \$1.0 million during the year ended December 31, 2005. The proceeds from the sale were used primarily to pay down the credit facility.

**Table of Contents****Significant Tenant Lease Termination**

In June 2005, we entered into an agreement with our largest office tenant, El Paso Energy Services Company and certain of its subsidiaries, which will terminate El Paso's leases relating to a total of 888,000 square feet at Greenway Plaza in Houston, Texas, effective December 31, 2007. Under the agreement, El Paso is required to pay us \$65.0 million in termination fees in periodic installments through December 31, 2007, and \$62.0 million in rent according to the original lease terms from July 1, 2005 through December 31, 2007. In December 2005, we collected the first installment of the lease termination fee in the amount of \$10.0 million and in June 2006, we collected the second installment of the lease termination fee in the amount of \$12.5 million. For the nine months ended September 30, 2006, we recognized \$33.6 million in net termination fees, which includes accelerated termination fees and contractual full-service rents resulting from the re-lease of approximately 420,000 square feet. As of September 30, 2006, El Paso was current on all rent obligations.

**Resort Residential Development***Riverfront Village*

On March 21, 2006, CRDI entered into a joint venture arrangement, East West Resort Development XIV, L.P., L.L.L.P. (Riverfront Village), with affiliates of Crow Holdings and our development partner. The joint venture was formed to co-develop a hotel and condominiums in Avon, Colorado. The development, which is currently underway, is scheduled for delivery in 2008. We provided 41.9% of the initial capitalization and the venture is structured such that we own a 26.8% interest after we receive a preferred return on our invested capital and return of our capital. Our equity commitment to the joint venture is \$23.7 million, of which \$13.5 million was funded as of September 30, 2006.

**Resort/Hotel***Park Hyatt Beaver Creek*

In the second quarter of 2006, 85 rooms were taken out of service at the Park Hyatt Beaver Creek in Avon, Colorado. The area occupied by 55 of these rooms is being converted into approximately 15 fractional units for sale in our Resort Residential Development Segment. The remaining space will be used to expand the Allegria Spa. In addition, the Resort is adding air conditioning and upgrading the common areas. The spa expansion and resort upgrades are expected to be completed in December 2006.

**Temperature-Controlled Logistics**

On August 31, 2006, AmeriCold entered into a definitive agreement to acquire from ConAgra Foods, Inc., four refrigerated warehouse facilities and the lease on a fifth facility, with an option to purchase. These five warehouses contain a total of 1.7 million square feet and 48.9 million cubic feet. The aggregate purchase price, including closing costs, is approximately \$190.0 million, consisting of \$152.0 million in cash to ConAgra Foods and \$38.0 million representing the recording of a capital lease obligation for the fifth facility. On October 10, 2006, AmeriCold assumed the leasehold on the fifth facility and the related capital lease obligation. AmeriCold expects to complete the balance of this acquisition in the first quarter of 2007.

**Table of Contents****Other Segment****Mezzanine Investments**

The following table presents mezzanine loans entered into in 2006. These loans are reflected in the Notes receivable, net line item in the consolidated financial statements. Mezzanine loans are loans that are subordinate to a conventional first mortgage loan and senior to the borrower's equity in a transaction. These loans may be in the form of a junior participating interest in the senior debt or in the form of loans to the direct or indirect parent of the property owner secured by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans secured by second mortgage liens on the property.

(in millions)	<b>Outstanding Loan Amount</b>	<b>Underlying Real Estate Asset</b>	<b>Maturity Date</b>	<b>Interest Rate at September 30, 2006</b>	<b>Fixed/ Variable</b>
January 20, 2006	\$ 15.0 <sup>(1)</sup>	Florida Hotel Portfolio Investment	2009	13.33%	Variable
April 12, 2006	\$ 20.0 <sup>(2)</sup>	California Ski Resort New York City	2009	9.83%	Variable
May 8, 2006	\$ 28.8 <sup>(3)</sup>	Residential	2007	18.16%	Variable

(1) The loan bears interest at LIBOR plus 800 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to two one-year extension options.

(2) The loan bears interest at LIBOR plus 450 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to two one-year

extension  
options.

- (3) The loan bears interest at LIBOR plus 1,283 basis points with an interest-only term until maturity, subject to the right of the borrower to extend the loan pursuant to two one-year extension options.

In February 2006, we received approximately \$56.4 million of proceeds for the repayment of two of our mezzanine investments, which included \$6.2 million of prepayment fees.

At September 30, 2006, we had approximately \$186.2 million of mezzanine investments outstanding which mature in 2007 through 2010 and had a weighted average interest rate of 13.47%.

### 2006 Operating Performance

#### Office Segment

The following table shows the performance factors on stabilized properties, excluding properties held for sale, used by management to assess the operating performance of the Office Segment:

	<b>2006</b>	<b>2005</b>
Economic Occupancy <sup>(1)</sup> (at September 30 and December 31)	89.8%	88.5%
Leased Occupancy <sup>(2)</sup> (at September 30 and December 31)	91.8%	90.8%
In-Place Weighted Average Full-Service Rental Rate <sup>(3)</sup> (at September 30 and December 31)	\$22.80	\$22.48
Tenant Improvement and Leasing Costs per Sq. Ft. per year (three months ended September 30)	\$ 3.12	\$ 3.20
Tenant Improvement and Leasing Costs per Sq. Ft. per year (nine months ended September 30)	\$ 3.40	\$ 3.41
Average Lease Term <sup>(4)</sup> (three months ended September 30)	5.5 yrs	5.7 yrs
Average Lease Term <sup>(4)</sup> (nine months ended September 30)	5.9 yrs	5.9 yrs
Same-Store NOI <sup>(5)</sup> (Decline) (three months ended September 30)	(1.1)%	(1.1)%
Same-Store NOI <sup>(5)</sup> (Decline) (nine months ended September 30)	(1.8)%	(1.0)%
Same-Store Average Occupancy (three months ended September 30)	88.9%	86.8%
Same-Store Average Occupancy (nine months ended September 30)	88.4%	87.3%

- (1) Economic occupancy reflects the occupancy of all tenants paying rent.



- (2) Leased occupancy reflects the amount of contractually obligated space, whether or not commencement has occurred.
  
- (3) Calculated based on base rent payable at September 30, 2006, giving effect to free rent and scheduled rent increases and including adjustments for expenses payable by or reimbursable from tenants. The weighted average full-service rental rate for the El Paso lease reflects weighted average full-service rental rate over the shortened term and excludes the impact of the net lease termination fee being recognized ratably to income through December 31, 2007.
  
- (4) Reflects leases executed during the period.

- (5) 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.

**Table of Contents****Resort Residential Development Segment**

The following tables show the performance factors used by management to assess the operating performance of the Resort Residential Development Segment. Information is provided for the CRDI Resort Residential Development Properties and the Desert Mountain Resort Residential Development Properties, which represent our significant investments in this segment as of September 30, 2006.

*CRDI*

(dollars in thousands)	<b>For the three months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Resort Residential Lot Sales	91	67
Resort Residential Unit Sales:		
Townhome Sales	14	24
Condominium Sales	4	13
Equivalent Timeshare Sales	5.01	6.01
Average Sales Price per Resort Residential Lot	\$ 57	\$ 166
Average Sales Price per Resort Residential Unit	\$ 1,632	\$ 1,012

(dollars in thousands)	<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Resort Residential Lot Sales	161	284
Resort Residential Unit Sales:		
Townhome Sales	17	24
Condominium Sales	38	68
Equivalent Timeshare Sales	11.63	12.47
Average Sales Price per Resort Residential Lot	\$ 104	\$ 87
Average Sales Price per Resort Residential Unit	\$ 1,790	\$ 939

CRDI, which invests primarily in mountain 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.

*Desert Mountain*

(dollars in thousands)	<b>For the three months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Resort Residential Lot Sales		6
Average Sales Price per Lot <sup>(1)</sup>	\$	\$ 1,086
Resort Residential Unit Sales	1	
Average Sales Price per Unit <sup>(1)</sup>	\$ 1,537	\$

<sup>(1)</sup> Includes equity  
golf  
membership

(dollars in thousands)	<b>For the Nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
Resort Residential Lot Sales	3	37
Average Sales Price per Lot <sup>(1)</sup>	\$ 1,936	\$ 1,047

Resort Residential Unit Sales	3	
Average Sales Price per Unit <sup>(1)</sup>	\$ 1,573	\$

(1) Includes equity  
golf  
membership

Desert Mountain is in the latter stages of development and management anticipates minor additions to its decreasing available inventory.

**Table of Contents****Resort/Hotel Segment**

The following table shows the performance factors used by management to assess the operating performance of our Resort/Hotel Properties.

	For the three months ended September 30,							
	Same-Store NOI <sup>(1)</sup>		Average		Average		Revenue Per	
			Occupancy		Daily		Available	
	% Change		Rate		Rate		Room/Guest Night	
2006	2005	2006	2005	2006	2005	2006	2005	
Luxury Resorts and Spas <sup>(2)</sup>	9%	51%	87%	88%	\$395	\$367	\$344	\$322
Upscale Business Class Hotels	18%	23%	72%	74%	\$138	\$122	\$100	\$ 91

	For the nine months ended September 30,							
	Same-Store NOI <sup>(1)</sup>		Average		Average		Revenue Per	
			Occupancy		Daily		Available	
	% Change		Rate		Rate		Room/Guest Night	
2006	2005	2006	2005	2006	2005	2006	2005	
Luxury Resorts and Spas <sup>(2)</sup>	19%	145%	77%	71%	\$350	\$333	\$270	\$236
Upscale Business Class Hotels	22%	36%	74%	74%	\$137	\$122	\$102	\$ 90

(1) Same-Store NOI (net operating income) represents net income excluding depreciation and amortization, interest expense and rent expense for Resort/Hotel Properties owned for the entirety of the comparable periods.

(2) Excludes the Park Hyatt Beaver Creek

Resort and Spa which had 85 rooms taken out of service in April 2006. The onsite construction and closure of the spa has impacted performance at the property. The floor space occupied by 55 of these rooms is to be converted into 15 fractional units for sale in our Resort Residential Development Segment. The remaining space will be used to expand the Allegria Spa.

**Table of Contents****Results of Operations**

The following table shows the variance in dollars for certain of our operating data between the three and nine months ended September 30, 2006 and 2005.

(in millions)	<b>Total variance in dollars between the three months ended September 30, 2006 and 2005</b>	<b>Total variance in dollars between the nine months ended September 30, 2006 and 2005</b>
<b>REVENUE:</b>		
Office Property	\$ 6.8	\$ 35.3
Resort Residential Development Property	(10.7)	1.8
Resort/Hotel Property	(1.9)	(0.9)
<b>Total Property revenue</b>	<b>\$ (5.8)</b>	<b>\$ 36.2</b>
<b>EXPENSE:</b>		
Office Property real estate taxes	\$ 0.9	\$ 1.3
Office Property operating expenses	0.3	7.6
Resort Residential Development Property expense	(5.0)	14.0
Resort/Hotel Property expense	(1.3)	(3.6)
<b>Total Property expense</b>	<b>\$ (5.1)</b>	<b>\$ 19.3</b>
<b>Income from Property Operations</b>	<b>\$ (0.7)</b>	<b>\$ 16.9</b>
<b>OTHER INCOME (EXPENSE):</b>		
Income from sale of investment unconsolidated company	\$ 24.2	\$ 28.5
Income from investment land sales	0.2	(8.2)
Gain on joint venture of properties	(0.2)	(1.8)
Gain on property sales	0.1	0.1
Interest and other income	3.3	15.3
Corporate general and administrative	0.8	(4.4)
Interest expense	(0.5)	2.8
Amortization of deferred financing costs	0.1	0.5
Extinguishment of debt	0.4	2.0
Depreciation and amortization	(0.4)	1.0
Other expenses	(3.3)	(6.4)
Equity in net income (loss) of unconsolidated companies:		
Office Properties	(0.9)	(2.7)
Resort Residential Development Properties	0.5	0.2
Resort/Hotel Properties	(0.7)	(3.5)
Temperature-Controlled Logistics Properties	(1.9)	(2.2)
Other	0.3	(10.0)

<b>Total other income (expense)</b>	\$	21.9	\$	11.2
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES</b>	\$	21.2	\$	28.1
Minority interests		(3.6)		(3.7)
Income tax benefit		2.6		5.4
<b>INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS</b>	\$	20.2	\$	29.8
Income from discontinued operations, net of minority interests		(0.8)		(4.0)
Impairment charges related to real estate assets from discontinued operations, net of minority interests				
(Loss) gain on sale of real estate from discontinued operations, net of minority interests		(89.7)		(91.1)
<b>NET INCOME</b>	\$	(70.3)	\$	(65.3)
Series A Preferred Share distributions				
Series B Preferred Share distributions				
<b>NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS</b>	\$	(70.3)	\$	(65.3)



**Table of Contents**

**Comparison of the three months ended September 30, 2006 to the three months ended September 30, 2005.  
Property Revenues**

Total property revenues decreased \$5.8 million, or 2.8%, to \$204.6 million for the three months ended September 30, 2006, as compared to \$210.4 million for the three months ended September 30, 2005. The primary components of the decrease in total property revenues are discussed below.

Office Property revenues increased \$6.8 million, or 7.1%, to \$103.1 million, primarily due to:

- § an increase of \$3.6 million in net lease termination fees (from \$4.9 million to \$8.5 million) primarily due to the El Paso lease termination and related re-leasing;
- § an increase of \$2.4 million from the 51 consolidated Office Properties (excluding properties acquired, disposed, or stabilized during 2005 and 2006) that we owned or had an interest in, primarily due to a 2.4 percentage point increase in average occupancy (from 86.0% to 88.4%), increased expense recovery revenue related to the increase in occupancy and increased recoverable expenses, increased parking revenue and increased billable electricity; partially offset by a decline in full service weighted average rental rates; and
- § an increase of \$2.2 million from the acquisition of Financial Plaza in January; partially offset by
- § a decrease of \$0.6 million due to the disposition of the 5 Houston Center office property in December 2005; and
- § a decrease of \$0.6 million in third party management and leasing services related to a decrease in lease commission revenue at the Three Westlake Park Office Property.

Resort Residential Development Property revenues decreased \$10.7 million, or 13.6%, to \$67.7 million, primarily due to:

- § a decrease of \$10.6 million in CRDI revenues related to product mix in lots and units available for sale in 2005 versus 2006 at Creekside Townhomes, Creekside - Phase II and Brownstones Phase I, all in Denver, Colorado, Horizon Pass in Bachelor Gulch, Colorado, and Eagle Ranch in Eagle, Colorado, which had sales in the three months ended September 30, 2005, but reduced or no sales in the same period in 2006; partially offset by Old Greenwood and Northstar Ironhorse in Lake Tahoe, California, which had sales in the three months ended September 30, 2006, but reduced or no sales in the same period in 2005; and

Resort/Hotel Property revenues decreased \$1.9 million, or 5.3%, to \$33.9 million, primarily attributable to:

- § a decrease of \$3.2 million in revenue at the Park Hyatt Beaver Creek related to a decrease in occupancy due to construction activity on the property and the closure of the Allegria Spa for expansion; partially offset by
- § an increase of \$0.9 million in revenue at the remaining Luxury Resort and Spa Properties primarily at the Fairmont Sonoma Mission Inn which experienced an 8% increase in revenue per available room (from \$276 to \$297) resulting from an increase of 9% in average daily rate (from \$316 to \$343) with occupancy remaining flat.

**Property Expenses**

Total property expenses decreased \$5.1 million, or 3.5%, to \$140.2 million for the three months ended September 30, 2006, as compared to \$145.3 million for the three months ended September 30, 2005. The primary components of the decrease in total property expenses are discussed below.

Office Property expenses increased \$1.2 million, or 2.4%, to \$51.3 million, primarily due to:

- § an increase of \$2.0 million in operating expenses of the 51 consolidated Office Properties (excluding properties acquired, disposed, or stabilized in 2005 and 2006) that we owned or had an interest in primarily due to increased property taxes, utilities, general building expenses and cleaning expenses; and
- § an increase of \$1.2 million from the acquisition of Financial Plaza in January 2006; partially offset by

§ a decrease of \$1.4 million related to decreased leasing costs and consulting and legal fees.  
43

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**Table of Contents**

Resort Residential Development Property expenses decreased \$5.0 million, or 7.3%, to \$63.7 million, primarily due to:

§ a decrease of \$7.7 million at CRDI primarily related to a decrease in cost of sales from product mix of lots and units available for sale in 2005 versus 2006 at Creekside Townhomes, Creekside Phase II and Brownstones Phase I, all in Denver, Colorado, Horizon Pass in Bachelor Gulch, Colorado, and Eagle Ranch in Eagle, Colorado, which had sales in the three months ended September 30, 2005, but reduced or no sales in the same period in 2006; partially offset by Old Greenwood and Northstar Ironhorse in Lake Tahoe, California, which had increased sales in the three months ended September 30, 2006, compared to the same period 2005.

Resort/Hotel Property expenses decreased \$1.3 million, or 4.9%, to \$25.2 million, primarily due to a decrease in occupancy at the Park Hyatt Beaver Creek due to construction activity on the property and the closure of the Allegria Spa for expansion.

**Other Income/Expense**

Total other income and expenses decreased \$21.9 million, or 28.3%, to \$55.5 million for the three months ended September 30, 2006, compared to \$77.4 million for three months ended September 30, 2005. The primary components of the decrease in total other income and expenses are discussed below.

**Other Income**

Other income increased \$24.8 million, or 258.3%, to \$34.4 million for the three months ended September 30, 2006, as compared to \$9.6 million for the three months ended September 30, 2005. The primary components of the increase in other income are discussed below.

Income from sale of investment in unconsolidated company increased \$24.2 million due to the sale of the Four Westlake Park Office Property in September 2006.

Interest and other income increased \$3.3 million to \$10.7 million primarily due to \$3.2 million increase related to interest from mezzanine loans attributable to an increase of \$79.4 million in the weighted average mezzanine loan balance (from \$106.8 to \$186.2) and a 1.50 percentage point increase in the weighted average interest rate (from 11.97% to 13.47%).

Equity in net income of unconsolidated companies decreased \$2.7 million to a \$0.8 million loss, primarily due to a decrease of \$1.9 million in Temperature-Controlled Logistics equity in net income primarily attributable to decreased income in the transportation segment due to service with FEMA in 2005 in the wake of Hurricane Katrina.

**Other Expenses**

Other expenses increased \$2.9 million, or 3.3%, to \$89.9 million for the three months ended September 30, 2006, compared to \$87.0 million for the three months ended September 30, 2005. The primary components of the increase in other expenses are discussed below.

Other expenses increased \$3.3 million, to \$5.0 million due primarily to legal and advisory fees for certain contemplated strategic alternatives.

Interest expense increased \$0.5 million, or 1.5%, to \$34.6 million due to an increase of \$144 million in the weighted average debt balance (from \$2.315 billion to \$2.459 billion) and a .24 percentage point increase in the hedged weighted average interest rate (from 6.90% to 7.14%); partially offset by an increase of \$3.6 million in capitalized interest (from \$5.9 million to \$9.5 million).

Corporate general and administrative costs decreased \$0.8 million, or 6.8%, to \$10.9 million due primarily to a decrease in compensation expense associated with restricted units granted under our long-term incentive compensation plans in December 2004 and May 2005 as a result of reaching the first performance target in August 2005, which resulted in acceleration of compensation expense.

**Table of Contents**

**Income Tax Benefit**

The \$2.6 million increase in the income tax benefit for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, is primarily due to a \$1.8 million decrease in tax expense on the Resort Residential Development Properties primarily attributable to a decrease in taxable income for DMDC.

**Discontinued Operations**

Income from discontinued operations on assets sold and held for sale decreased \$90.5 million due primarily to a decrease of \$89.7 million, net of minority interest, attributable to the gain on sale of three properties in 2005.

**Comparison of the nine months ended September 30, 2006 to the nine months ended September 30, 2005.**

**Property Revenues**

Total property revenues increased \$36.2 million, or 6.0%, to \$638.3 million for the nine months ended September 30, 2006, as compared to \$602.1 million for the nine months ended September 30, 2005. The primary components of the increase in total property revenues are discussed below.

Office Property revenues increased \$35.3 million, or 12.7%, to \$313.2 million, primarily due to:

- § an increase of \$26.9 million in net lease termination fees (from \$7.0 million to \$33.9 million) primarily due to the El Paso lease termination and related re-leasing;
- § an increase of \$6.9 million from the acquisition of Financial Plaza in January 2006 and increased occupancy at One Live Oak, the Exchange Building and Peakview Tower;
- § an increase of \$6.4 million from the 51 consolidated Office Properties (excluding properties acquired, disposed, or stabilized during 2005 and 2006) that we owned or had an interest in, primarily due to a 1.7 percentage point increase in average occupancy (from 86.2% to 87.9%), increased expense recovery revenue related to the increase in occupancy and increased recoverable expenses and increased parking revenue; partially offset by a decline in full service weighted average rental rates; and
- § an increase of \$0.9 million due to the settlement of litigation pertaining to leases and license agreements in various Office Properties; partially offset by
- § a decrease of \$6.3 million due to the joint ventures of Fulbright Tower in February 2005 and One Buckhead Plaza in June 2005.

Resort Residential Development Property revenues increased \$1.8 million, or 0.8%, to \$220.5 million, primarily due to:

- § an increase of \$15.4 million in CRDI revenues related to product mix in lots and units available for sale in 2006 versus 2005, primarily at Northstar Ironhorse, Gray's Crossing and Old Greenwood, all in Lake Tahoe, California, and Hummingbird Lodge in Bachelor Gulch, Colorado, which had sales in the nine months ended September 30, 2006, but reduced or no sales in the same period in 2005; partially offset by Creekside Phase II, Creekside Townhomes, Delgany and Brownstones Phase I, all in Denver, Colorado, the Horizon Pass project in Bachelor Gulch, Colorado, and Eagle Ranch in Colorado, which had sales in the nine months ended September 30, 2005, but reduced or no sales in the same period in 2006; partially offset by
- § a decrease of \$12.4 million at DMDC primarily related to a decrease in lot sales revenue due to a decrease in lots sold (from 37 to 3); partially offset by an increase of \$4.7 million in unit sales revenue due to the sale of three units in 2006.

Resort/Hotel Property revenues decreased \$0.9 million, or 0.9%, to \$104.6 million, primarily attributable to:

- § a decrease of \$4.6 million due to the contribution in January 2005, of the Canyon Ranch® Properties to a newly formed entity, CR Operating, LLC, in which we have a 48% member interest that is accounted for as an unconsolidated investment; and
- § a decrease of \$3.7 million in revenue at the Park Hyatt Beaver Creek related to a decrease in occupancy due to construction activity on the property and the closure of the Allegría Spa for expansion; partially offset by

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- § an increase of \$4.8 million in revenue at the remaining Luxury Resort and Spa Properties, primarily at the Fairmont Sonoma Mission Inn which experienced a 17% increase in revenue per available room (from \$206 to \$240) resulting from an increase of 5% in average daily rate (from \$292 to \$307) and an 8 percentage point increase in occupancy (from 70% to 78%); and
- § an increase of \$2.5 million in room revenue at the Business Class Hotel Properties primarily related to a 13% increase in revenue per available room (from \$90 to \$102) resulting from a 12% increase in average daily rate (from \$122 to \$137) with occupancy remaining flat.

45

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**Table of Contents**

**Property Expenses**

Total property expenses increased \$19.3 million, or 4.6%, to \$436.3 million for the nine months ended September 30, 2006, as compared to \$417.0 million for the nine months ended September 30, 2005. The primary components of the increase in total property expenses are discussed below.

Office Property expenses increased \$8.9 million, or 6.2%, to \$152.7 million, primarily due to:

- § an increase of \$6.5 million in operating expenses of the 51 consolidated Office Properties (excluding properties acquired, disposed or stabilized during 2005 and 2006) that we owned or had an interest in primarily due to increased property taxes, utilities, general building expenses, cleaning expenses, insurance expense and non-recoverable administrative expenses;
- § an increase of \$3.2 million from the acquisition of Financial Plaza in January 2006 and the Exchange Building in February 2005;
- § an increase of \$1.4 million in lease termination expense related to the termination of a retail lease at Hughes Center; and
- § an increase of \$0.6 million related to the cost of providing third party management and leasing services primarily related to the joint venture of Fulbright Tower in February 2005 and One Buckhead Plaza in June 2005; partially offset by
- § a decrease of \$2.8 million related to the joint venture of Fulbright Tower in February 2005 and One Buckhead Plaza in June 2005.

Resort Residential Development Property expenses increased \$14.0 million, or 7.3%, to \$205.1 million, primarily due to:

- § an increase of \$23.3 million in CRDI cost of sales related to product mix in lots and units available for sale in 2006 versus 2005, primarily at Northstar Ironhorse, Gray's Crossing and Old Greenwood, all in Lake Tahoe, California, and Hummingbird Lodge in Bachelor Gulch, Colorado, which had sales in the nine months ended September 30, 2006, but reduced or no sales in the same period in 2005; partially offset by Creekside Phase II, Creekside Townhomes, Delgany and Brownstones Phase I, all in Denver, Colorado, Horizon Pass in Bachelor Gulch, Colorado, and Eagle Ranch in Colorado, which had sales in the nine months ended September 30, 2005, but reduced or no sales in the same period 2006; and
- § an increase of \$2.3 million primarily due to marketing expenses related to the Ritz-Carlton Tower Residences and Regency Row and to The Residences at the Ritz-Carlton in Dallas, Texas; partially offset by
- § a decrease of \$12.1 million at DMDC primarily related to a decrease in cost of sales attributable to decreased lot sales.

Resort/Hotel Property expenses decreased \$3.6 million, or 4.4%, to \$78.4 million, primarily due to:

- § a decrease of \$4.1 million due to the contribution, in January 2005, of the Canyon Ranch Properties to a newly formed entity, CR Operating, LLC, in which we have a 48% member interest that is accounted for as an unconsolidated investment; and
- § a decrease of \$2.3 million at the Park Hyatt Beaver Creek related to a decrease in occupancy due to construction activity on the property and the closure of the Allegria Spa for expansion; partially offset by
- § an increase of \$3.0 million at the remaining Luxury Resort and Spa Properties, primarily at Sonoma Mission Inn, related to an 8 percentage point increase in occupancy (from 70% to 78%).

**Other Income/Expense**

Total other income and expenses decreased \$11.2 million, or 5.3%, to \$198.8 million for the nine months ended September 30, 2006, compared to \$210.0 million for nine months ended September 30, 2005. The primary components of the decrease in total other income and expenses are discussed below.

**Other Income**

Other income increased \$15.7 million, or 32.0%, to \$64.8 million for the nine months ended September 30, 2006, as compared to \$49.1 million for the nine months ended September 30, 2005. The primary components of the increase in other income are discussed below.

Income from sale of investment in unconsolidated company increased \$28.5 million due to the sale of the Four Westlake Park and Chase Tower Office Properties in 2006.

Interest and other income increased \$15.3 million to \$35.9 million primarily due to \$16.7 million increase from mezzanine loans attributable to an increase of \$99.4 million in the weighted average mezzanine loan balance (from \$74.0 million to \$173.4 million) and includes approximately \$6.2 million in prepayment fees on two mezzanine loans that were paid off in first quarter 2006 and a 1.09 percentage point increase in the weighted average interest rate (from 11.81% to 12.90%);

## **Table of Contents**

Equity in net income of unconsolidated companies decreased \$18.2 million primarily due to:

- § a decrease of \$10.0 million in Other equity in net income primarily attributable to a decrease of income from the G2 and SunTx investments;
- § a decrease of \$3.5 million in Resort/Hotel equity in net income primarily attributable to Canyon Ranch Living Miami license fees of \$3.0 million, of which our portion was \$1.4 million, recognized at CR Operating, LLC in the first quarter 2005;
- § a decrease of \$2.7 million in Office equity in net income due to a \$1.1 million decrease at Bank One Center, \$0.7 million decrease at Houston Center, and the disposition of 5 Houston Center in December 2005; and
- § a decrease of \$2.2 million in Temperature-Controlled Logistics equity in net income primarily attributable to decreased income in the transportation segment due to services with FEMA in 2005 in the wake of Hurricane Katrina.

Income from investment land sales decreased \$8.2 million due primarily to the gain on the sale of two parcels of undeveloped investment land in Houston, Texas in 2005.

Gain on joint venture of properties decreased \$1.8 million due to the gain from the joint venture of Fulbright Tower in February 2005 and One Buckhead Plaza in June 2005.

### **Other Expenses**

Other expenses increased \$4.5 million, or 1.7%, to \$263.6 million for the nine months ended September 30, 2006, compared to \$259.1 million for the nine months ended September 30, 2005. The primary components of the increase in other expenses are discussed below.

Other expenses increased \$6.4 million, to \$8.8 million due primarily to legal and advisory fees for certain contemplated strategic alternatives.

Corporate general and administrative costs increased \$4.4 million, or 13.3%, to \$37.6 million due primarily to an increase in compensation expense associated with restricted units granted under our long-term incentive compensation plans in December 2004 and May 2005 due to nine months of expense in 2006 for the May 2005 unit plan and as a result of reaching the third performance target in March 2006, which resulted in acceleration of compensation expense, as well as increased stock and unit option expense from the adoption of SFAS No. 123R and increased payroll and benefit costs.

Interest expense decreased \$2.8 million, or 2.7%, to \$100.6 million due to an increase of \$6.9 million in capitalized interest (from \$15.0 million to \$21.9 million); partially offset by an increase of \$80 million in the weighted average debt balance (from \$2.265 billion to \$2.345 billion) and a 0.06 percentage point increase in the hedged weighted average interest rate (from 6.98% to 7.04%);

Extinguishment of debt decreased \$2.0 million due to the write-off of deferred financing costs associated with the reduction of the Bank of America Funding XII Term Loan, the payoff of the old credit facility and the payoff of the Fleet Term Loan, all in 2005.

### **Income Tax Benefit**

The \$5.4 million increase in the income tax benefit for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, is primarily due to a \$3.6 million decrease in tax expense related to 2005 income from the G2 investment and 2005 unrealized gains associated with the SunTx investment.

### **Discontinued Operations**



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Income from discontinued operations on assets sold and held for sale decreased \$95.1 million to \$0.2 million due to:

a decrease of \$91.1 million, net of minority interest, due to the gain on the sale of four office properties in 2005; and

a decrease of \$4.0 million, net of minority interest, due to the reduction of net income associated with properties held for sale in 2006 compared to 2005.

**Table of Contents****Liquidity and Capital Resources****Overview**

Our primary sources of liquidity are cash flow from operations, our credit facility, construction loans and proceeds from asset sales and joint ventures. Our short-term liquidity requirements through September 30, 2007, consist primarily of our normal operating expenses, recurring principal and interest payments on our debt, resort residential development capital expenditures, capital expenditures for operating properties, potential redemption of restricted units of our Operating Partnership and distributions to our shareholders. Our long-term liquidity requirements are substantially similar to our short-term liquidity requirements, other than the level of debt obligations maturing after September 30, 2007.

**Short-Term Liquidity**

We believe that cash flow from operations will be sufficient to cover our normal operating expenses, interest payments on our debt, distributions on our preferred shares, non-revenue enhancing capital expenditures and revenue enhancing capital expenditures (including property improvements, tenant improvements and leasing commissions) in 2006 and 2007. The cash flow from our Resort Residential Development Segment is cyclical in nature and primarily realized in the last quarter of each year. We expect to meet temporary shortfalls in operating cash flow caused by this cyclicity through working capital draws under our credit facility and additional borrowings. As of September 30, 2006, we had up to \$65.6 million of borrowing capacity available under our credit facility. However, if our Board of Trustees continues to declare distributions on our common shares at current levels, our cash flow from operations, after payments discussed above, is not expected to fully cover such distributions on our common shares in 2006 and 2007. We intend to use proceeds from asset sales and joint ventures, additional leverage on assets, and borrowings under our credit facility to cover this shortfall.

In addition, through September 30, 2007, we expect to make capital expenditures that are not in the ordinary course of operations of our business of approximately \$162.1 million, primarily relating to new developments of investment property. We anticipate funding these short-term liquidity requirements primarily through construction loans and borrowings under our credit facility or additional debt facilities. As of September 30, 2006, we also had maturing debt obligations of \$670.5 million through September 30, 2007, made up primarily of the maturity of the 2007 Notes, the GACC Note (which has three one-year extension options), Funding I Defeasance (to be repaid from proceeds of defeasance investments) and the KeyBank II loan. The 2007 Notes will be repaid using proceeds from new bonds, asset sales or additional leverage on under-leveraged assets. We intend to refinance the KeyBank II loan. In addition, \$53.3 million of these maturing debt obligations relate to the Resort Residential Development Segment and will be repaid with the sales of the corresponding land or units or will be refinanced with additional debt facilities. The remaining maturities consist primarily of normal principal amortization and will be met with cash flow from operations.

**Long-Term Liquidity**

Our long-term liquidity requirements as of September 30, 2006, consist primarily of \$1.8 billion of debt maturing after September 30, 2007. We also have \$14.3 million of expected long-term capital expenditures relating to capital investments that are not in the ordinary course of operations of our business. We anticipate meeting these obligations primarily through refinancing maturing debt with long-term secured and unsecured debt, construction loans and through other debt and equity financing alternatives, as well as cash proceeds from asset sales and joint ventures.

We anticipate that long-term liquidity requirements will also include amounts required for future unidentified property acquisitions, mezzanine investments and capital expenditures. Property acquisitions and capital expenditures are expected to be funded with available cash flow from operations, borrowings under our credit facility, construction and permanent secured financing, other debt and equity financing alternatives, as well as cash proceeds from asset sales and joint ventures. Mezzanine investments are expected to be funded with borrowings under our credit facility and through the use of our warehouse facilities governed by repurchase agreements.

**Table of Contents****Cash Flows**

Our cash flow from operations is primarily attributable to the operations of our Office, Resort Residential Development and Resort/Hotel Properties. The level of our cash flow depends on multiple factors, including rental rates and occupancy rates at our Office Properties, sales of lots and units at our Resort Residential Development Properties and room rates and occupancy rates at our Resort/Hotel Properties. Our net cash provided by operating activities is also affected by the level of our operating and other expenses, as well as Resort Residential capital expenditures for existing and committed projects.

During the nine months ended September 30, 2006, our cash flow from operations was insufficient to fully cover the distributions on our common shares. We funded this shortfall primarily with a combination of proceeds from asset sales and borrowings under our credit facility.

(in millions)	<b>For the nine months ended September 30, 2006</b>	
Cash used in Operating Activities	\$	(102.7)
Cash provided by Investing Activities		2.7
Cash provided by Financing Activities		91.0
Decrease in Cash and Cash Equivalents	\$	(9.0)
Cash and Cash Equivalents, Beginning of Period		86.2
Cash and Cash Equivalents, End of Period	\$	77.2

*Operating Activities*

Our cash used in operating activities of \$102.7 million is attributable to Property operations.

*Investing Activities*

Our cash provided by investing activities of \$2.7 million is primarily attributable to:

\$172.8 million proceeds from defeasance investment maturities and other securities, primarily due to the maturity of the securities securing the LaSalle Note II which was repaid in March 2006;

\$34.3 million proceeds from sale of investment in unconsolidated company due to the sale of our interests in the Four Westlake Park and Chase Tower office properties;

\$24.3 million proceeds from property sales due to the sale of Waterside Commons Office Property in February 2006;

\$22.0 million return of investment in unconsolidated companies, primarily due to the distributions received from Riverfront Village, AmeriCold Realty Trust and Redtail Capital Partners, L.P.; and

\$8.9 million decrease in restricted cash.

The cash provided by investing activities is partially offset by:

\$107.6 million for the development of investment properties, due to the development of the JPI Multi-Family Investments luxury apartments, Paseo del Mar office development, Ritz-Carlton Hotel development and 3883 Hughes Parkway office development;

\$46.8 million for non-revenue enhancing tenant improvement and leasing costs for Office Properties;

\$30.7 million for the acquisition of investment properties, primarily due to the acquisition of the Financial Plaza Office Property in January 2006;

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\$29.3 million of property improvements for Office and Resort/Hotel Properties;

\$20.5 million additional investment in unconsolidated companies, primarily related to our investment in Riverfront Village and Redtail Capital Partners, L.P.;

\$18.9 million for development of amenities at the Resort Residential Development Properties; and

\$5.8 million increase in notes receivable, primarily due to \$63.8 million for three new mezzanine loans, partially offset by the repayment of approximately \$50.2 million for two mezzanine loans.

49

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**Table of Contents***Financing Activities*

Our cash provided by financing activities of \$91.0 million is primarily attributable to:

\$233.2 million proceeds from other borrowings, primarily due to the Bank of America loan secured by the Fairmont Sonoma Mission Inn, the Key Bank loan secured by distributions from Funding III, IV & V, the Morgan Stanley and Goldman Sachs repurchase agreements secured by mezzanine loans and construction draws on our Office developments and the Ritz-Carlton hotel development;

\$109.2 million net proceeds from borrowings for construction costs at the Resort Residential Development Properties;

\$67.0 million net proceeds from borrowings under our credit facility;

\$22.8 million proceeds from the exercise of share and unit options; and

\$8.5 million proceeds from capital contributions from our joint venture partners.

The cash provided by financing activities is partially offset by:

\$174.1 million payments under other borrowings, primarily due to the pay off of the LaSalle Note II funded by proceeds from the maturity of defeasance investments;

\$138.2 million distributions to common shareholders and unitholders;

\$24.0 million distributions to preferred shareholders;

\$9.5 million capital distributions to joint venture partners; and

\$3.8 million debt financing costs, primarily due to Bank of America loan secured by the Fairmont Sonoma Mission Inn and the Goldman Sachs and Morgan Stanley repurchase agreements secured by mezzanine loans.

**Liquidity Requirements****Debt Financing Summary**

The following table shows summary information about our debt, including our pro rata share of unconsolidated debt, as of September 30, 2006. Listed below are the aggregate required principal payments by year as of September 30, 2006, excluding any extension options. Scheduled principal installments and amounts due at maturity are included.

(in thousands)	Secured Debt	Defeased Debt	Unsecured Debt	Consolidated Debt	Share of		Total
					Unconsolidated Debt		
2006	\$ 3,098	\$ 507	\$	\$ 3,605	\$ 54,328	\$	\$ 57,933
2007	423,395	100,279	250,000	773,674	186,340		960,014
2008	244,909	289	301,000 <sup>(1)</sup>	546,198	48,405		594,603
2009	282,467	320	375,000	657,787	17,322		675,109
2010	134,051	6,337		140,388	23,823		164,211
Thereafter	317,920		77,321	395,241	363,461		758,702
	\$ 1,405,840	\$ 107,732	\$ 1,003,321	\$ 2,516,893	\$ 693,679		\$ 3,210,572

<sup>(1)</sup> Borrowings  
under the credit

facility.

**Table of Contents****Significant Capital Expenditures**

As of September 30, 2006, we had unfunded capital expenditures of approximately \$176.4 million relating to capital investments that are not in the ordinary course of operations of our business segments. The table below specifies our requirements for capital expenditures not factoring in project level financing, the amounts funded as of September 30, 2006, and amounts remaining to be funded (future funding classified between short-term and long-term capital requirements):

(in millions) Project	Total Project Cost <sup>(1)</sup>	Amount Spent as of September 30, 2006	Amount Remaining To Spend	Capital Expenditures	
				Short-Term (Next 12 Months) <sup>(2)</sup>	Long-Term (12+ Months) <sup>(2)</sup>
<b>Consolidated:</b>					
<b>Office Segment</b>					
3883 Hughes Center <sup>(3)</sup>	\$ 73.0	\$ 44.9	\$ 28.1	\$ 28.1	\$
Paseo del Mar <sup>(4)</sup>	65.4	55.8	9.6	8.8	0.8
Parkway at Oakhill <sup>(5)</sup>	24.6	8.5	16.1	8.9	7.2
<b>Resort Residential Development Segment</b>					
Ritz-Carlton Highlands <sup>(6)</sup>	369.7	17.7	<sup>(7)</sup>		
Tahoe Mountain Club <sup>(8)</sup>	94.4	84.7	7.3	7.3	
JPI Multi-family Investments Luxury Apartments <sup>(9)</sup>	54.3	50.5	3.8	3.8	
The Ritz-Carlton Phase I <sup>(10)</sup>	202.7	103.2	99.5	93.2	6.3
The Ritz-Carlton Phase II <sup>(11)</sup>	126.5	12.8	<sup>(12)</sup>		
<b>Resort/Hotel Segment</b>					
Park Hyatt Beaver Creek <sup>(13)</sup>	26.0	14.0	12.0	12.0	
<b>Total</b>	<b>\$ 1,036.6</b>	<b>\$ 392.1</b>	<b>\$ 176.4</b>	<b>\$ 162.1</b>	<b>\$ 14.3</b>

(1) All amounts are approximate.

(2) Reflects our estimate of the breakdown between short-term and long-term capital expenditures.

(3) We have committed to a first phase office development of

239,000 square feet on land that we own within the Hughes Center complex. We expect to complete the building in the first quarter of 2007. We closed a \$52.3 million construction loan in the third quarter of 2005.

- (4) In September 2005, we entered into a joint venture agreement with JMI Realty. The joint venture has committed to develop a 232,330 square-foot, three-building office complex in the Del Mar Heights submarket of San Diego, California. We have a \$53.1 million construction loan from Guaranty Bank for the construction of this project. The loan is fully guaranteed by an affiliate of our partner. Amounts in the table represent our portion (80%) of total project costs. The office complex was completed in



August 2006.

(5) In March 2006, we entered into a joint venture agreement with Champion Partners. The joint venture has committed to develop a 144,380 square-foot, two-building office complex in Austin, Texas. The joint venture has a \$18.3 million construction loan from JP Morgan Chase Bank to fund construction of this project. Amounts in the table represent our portion (90%) of total project costs. The development is scheduled to be completed in 2007.

(6) We entered into agreements with Ritz-Carlton Hotel Company, L.L.C. for us to develop a 172 room luxury hotel in Lake Tahoe, California. The new luxury property will also include the Ritz-Carlton Residences.

(7)

The funding of future potential capital expenditures is dependent upon obtaining a certain level of unit pre-sales, construction financing and obtaining a joint venture partner for 60% of the equity.

- (8) As of September 30, 2006, we had invested \$84.7 million in Tahoe Mountain Club, which includes the acquisition of land and development of golf courses and club amenities. Table includes the development planned for 2006 only. We anticipate collecting membership deposits which will be utilized to fund a portion of the development costs.
- (9) In October 2004, we entered into an agreement with JPI Multi-Family Investments, L.P. to develop a multi-family apartment project in Dedham,

Massachusetts.

We have a construction loan with a maximum borrowing of \$41.0 million, which our partner guarantees to fund construction.

- (10) We entered into agreements with Ritz-Carlton Hotel Company, L.L.C. for us to develop the first Ritz-Carlton hotel and condominium project in Dallas, Texas. The development plans include a Ritz-Carlton with approximately 217 hotel rooms and 70 residences.

Construction on the development is anticipated to be completed in the third quarter of 2007. We have a \$175.0 million construction line of credit from KeyBank for the construction of this project.

- (11) We entered into agreements with Ritz-Carlton Hotel Company, L.L.C. for us to develop an additional 96 Ritz-Carlton residences and 4

townhomes  
adjacent to the  
Phase I  
development.

- (12) The funding of future potential capital expenditures is dependent upon obtaining a certain level of unit pre-sales and construction financing.
- (13) In April 2006, we began renovations at the Park Hyatt Beaver Creek in Avon, Colorado, which consist of the addition of air conditioning, upgrades to the common areas and taking 30 rooms out of service to expand the Allegria Spa. The spa expansion and resort upgrades are expected to be completed in December 2006.

**Table of Contents****Units Subject to Redemption**

Restricted units granted under the 2004 and 2005 Unit Plans vest in 20% increments when the average closing price of Crescent common shares for the preceding 40 trading days achieves certain targets. Each vested restricted unit will be exchangeable, beginning on the second anniversary of the date of grant, for cash equal to the value of two Crescent common shares based on the closing price of the common shares on the date of exchange, and subject to a six-month hold period following vesting, unless, prior to the date of the exchange, Crescent requests and obtains shareholder approval authorizing it, at its discretion, to deliver instead two common shares in exchange for each such restricted unit. Regular quarterly distributions accrue on unvested restricted units and are payable upon vesting of the restricted units.

The following table presents the amount of restricted unit grants, vested restricted units and the redemption amount by year.

(dollars in thousands)	Granted <sup>(1)</sup>	Vested <sup>(1)</sup>	Vested Unit Redemption Value at September 30,		Redeemable in	
			2006 <sup>(2)</sup>	2006 <sup>(3)</sup>	2007 <sup>(4)</sup>	2008
2004 Plan	3,568,500	2,147,500	\$ 46,837	\$ 43,719	\$ 3,118	\$
2005 Plan	2,187,500	437,500	9,542		9,433	109
	5,756,000	2,585,000	\$ 56,379	\$ 43,719	\$ 12,551	\$ 109

(1) Amounts listed in common share equivalents and are net of forfeitures.

(2) Vested units may be exchanged for cash unless, prior to the date of exchange, Crescent obtains shareholder approval authorizing it, in its discretion, to deliver instead two common shares for each such restricted unit.

(3)

Amount is  
redeemable  
beginning  
December 1,  
2006.

- (4) Amount is  
redeemable  
primarily  
beginning  
May 16, 2007.

#### Off-Balance Sheet Arrangements    Guarantee Commitments

Our guarantees in place as of September 30, 2006, 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 us to provide additional collateral to support the guarantees.

(in thousands)	<b>Guaranteed Amount Outstanding at September 30, 2006</b>	<b>Maximum Guaranteed Amount at September 30, 2006</b>
<b>Debtor</b>		
CRDI Eagle Ranch Metropolitan District Letter of Credit	\$ 7,845	\$ 7,845
Main Street Partners, L.P. Letter of Credit <sup>(2) (3)</sup>	4,250	4,250
Fresh Choice, LLC <sup>(4)</sup>	1,000	1,000
CRDI U.S. Bank National Association <sup>(5)</sup>	8,449	20,393
<b>Total Guarantees</b>	<b>\$ 21,544</b>	<b>\$ 33,488</b>

- (1) We provide a \$7.8 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) We and our 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.
- (4) We provide a guarantee of up to \$1.0 million to GE Capital Franchise Financing Corporation as part of Fresh Choice's bankruptcy reorganization.
- (5) We entered into a Payment and Completion Guaranty with U.S. Bank National Association for the repayment of bonds that were issued by the Northstar Community Housing Corporation to fund construction of an employee housing project. The initial guaranty of \$20.4 million

decreases to  
\$5.1 million  
once  
construction is  
complete and  
certain  
conditions are  
met and  
decreases  
further and is  
eventually  
released as  
certain debt  
service coverage  
ratios are  
achieved.

**Other Commitments**

In July 2005, we purchased comprehensive insurance that covers us, contractors and other parties involved in the construction of the Ritz-Carlton hotel and condominium project in Dallas, Texas. Our insurance carrier, which will pay the associated claims as they occur under this program and will be reimbursed by us within our deductibles, requires us to provide a \$1.7 million letter of credit supporting payment of claims. We believe there is a remote likelihood that payment will be required under the letter of credit.



**Table of Contents****Debt Financing**

The significant terms of our primary debt financing arrangements existing as of September 30, 2006, are shown below:

Description <sup>(1)</sup>	Secured Asset	Maximum Borrowings	Balance Outstanding at September 30, 2006	Interest Rate at September 30, 2006	Maturity Date
<b>Secured Fixed Rate Debt:</b>					
AEGON Partnership Note	Greenway Plaza	\$ 243,932	\$ 243,932	7.53%	July 2009
Prudential Note	707 17 <sup>th</sup> Street/Denver Marriott	70,000	70,000	5.22	June 2010
JP Morgan Chase III	Datran Center	65,000	65,000	4.88	October 2015
Bank of America Note I	Fairmont Sonoma Mission Inn	55,000	55,000	5.40	February 2011
Morgan Stanley I Allstate Life Note	The Alhambra Financial Plaza	50,000	50,000	5.06	October 2011
Bank of America Note II	The BAC Colonnade Building	39,089	39,089	5.47	October 2010
Metropolitan Life Note VII	Dupont Centre	37,558	37,558	5.53	May 2011
Column Financial Mass Mutual Note (2)	Peakview Tower 3800 Hughes	35,500	35,500	4.31	April 2015
Northwestern Life Note	301 Congress	33,000	33,000	5.59	January 2007
JP Morgan Chase II Allstate Note (2)	3773 Hughes 3993 Hughes	32,498	32,498	7.75	November 2008
Metropolitan Life Note VI (2)	3960 Hughes	26,000	26,000	4.94	September 2011
Construction, Acquisition and other obligations	Various Office and Resort Residential Assets	24,216	24,216	6.65	September 2010
		22,312	22,312	7.71	October 2009
		38,603	38,603	2.90 to 13.75	July 2007 to Sept. 2011
<b>Secured Fixed Rate Defeased Debt<sup>(3)</sup>:</b>					
LaSalle Note I	Funding I Defeasance	100,462	100,462	7.83	August 2007
Nomura Funding VI Note	Funding VI Defeasance	7,270	7,270	10.07	July 2010
Subtotal/Weighted Average		\$ 905,195	\$ 905,195	6.38%	

**Unsecured Fixed  
Rate Debt:**

The 2009 Notes	\$ 375,000	\$ 375,000	9.25%	April 2009
The 2007 Notes	250,000	250,000	7.50	September 2007
Subtotal/Weighted Average	\$ 625,000	\$ 625,000	8.55%	

**Secured Variable  
Rate Debt:**

	Ritz-Carlton Dallas				July 2008
KeyBank I <sup>(4)</sup>	Construction Funding One	\$ 175,000	\$ 65,150	7.58%	June 2007
GACC Note <sup>(4)</sup>	Assets	165,000	165,000	6.80	October 2007
JPMorgan Chase	Northstar Big Horn Construction	113,992	64,939	7.75	March 2009
Morgan Stanley II <sup>(5)(6)</sup>	Mezzanine Investments	100,000	38,280	7.29	May 2009
Goldman Sachs <sup>(6)(7)</sup>	Mezzanine Investments	100,000	10,000	6.73	January 2007
KeyBank II	Distributions from Funding III, IV and V	75,000	50,000	7.33	February 2008
First Bank of Vail	Village Walk Construction	62,457	21,468	7.75	September 2008
Guaranty Bank <sup>(8)(9)</sup>	Paseo Del Mar Construction	53,100	35,745	7.31	September 2008
Societe Generale I <sup>(8)</sup>	3883 Hughes Construction	52,250	19,116	7.26	November 2007
Bank of America III <sup>(8)(9)</sup>	Jefferson Station Apts Construction	41,009	37,231	7.33	March 2008
US Bank II	Northstar Trailside Construction	36,000	336	7.83	February 2008
US Bank I <sup>(10)</sup>	Beaver Creek Landing Construction	33,400	9,813	7.07	October 2007
National Bank of Arizona	DMDC Assets	30,000	15,156	8.75	March 2008
California Bank & Trust <sup>(11)</sup>	One Riverfront Construction	24,350	7,182	8.38	July 2007
Societe General II	Gray s Crossing Construction	22,209	11,483	7.84	March 2007
Chase Bank	Old Greenwood Construction	21,000	19,008	8.25	February 2007 to December 2012
Construction, Acquisition and other obligations	Various Office and Resort Residential Assets	72,689	38,470	6.58 to 9.25	

Subtotal/Weighted Average	\$ 1,177,456	\$ 608,377	7.36%	
<b>Unsecured Variable Rate Debt:</b>				
Credit Facility <sup>(12)</sup>	\$ 380,335	\$ 301,000	6.93%	February 2008
Junior Subordinated Notes	51,547	51,547	7.49	June 2035
Junior Subordinated Notes	25,774	25,774	7.49	July 2035
Subtotal/Weighted Average	\$ 457,656	\$ 378,321	7.04%	
<b>Total/Weighted Average</b>	<b>\$ 3,165,307</b>	<b>\$ 2,516,893</b>	<b>7.26%<sup>(13)</sup></b>	
<b>Average remaining term</b>				<b>3.2 years</b>

(1) For more information regarding the terms of our debt financing arrangements and the method of calculation of the interest rate for our variable rate debt, see Note 9, Notes Payable and Borrowings under the Credit Facility, included in Item 1, Financial Statements.

(2) Includes a portion of total premiums of \$2.5 million reflecting market value of

debt acquired  
with the  
purchase of  
Hughes Center  
portfolio.

- (3) We purchased U.S. Treasuries and government sponsored agency securities, or defeasance investments, to substitute as collateral for these loans. The cash flow from defeasance investments (principal and interest) matches the total debt service payment of the loans.
- (4) This loan has three one-year extension options.
- (5) The investments can be financed through March 2008, after which four equal payments are due quarterly. The loan has a provision for a one-year extension which is subject to Morgan Stanley's approval.
- (6) The loans supporting these

facilities are subject to daily valuations by Morgan Stanley and Goldman Sachs, respectively. We are subject to a margin call if the overall leverage of the facility exceeds certain thresholds.

- (7) The investments can be financed through May 2009. The financing and maturity can be extended one year subject to Goldman Sachs approval.
- (8) This loan has two one-year extension options.
- (9) Our partner provides a full guarantee of this loan.
- (10) This loan has one six-month extension option.
- (11) This loan has one one-year extension option.
- (12) The Credit Facility has a maximum potential capacity of

\$380.3 million.  
The \$301.0 million outstanding at September 30, 2006, excludes letters of credit issued under the facility of \$13.8 million. We are also subject to financial covenants, which include minimum debt service ratios, maximum leverage ratios and, in the case of the Operating Partnership, a minimum tangible net worth limitation and a fixed charge coverage ratio.

- (13) The overall weighted average interest rate does not include the effect of our cash flow hedge agreements. Including the effect of these agreements, the overall weighted average interest rate would have been 7.22%.

**Table of Contents**

We are generally obligated by our 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 we are subject include, among others, leverage ratios, debt service coverage ratios and limitations on total indebtedness. The affirmative covenants to which we are subject under our debt agreements include, among others, provisions requiring us to comply with all laws relating to operation of any Properties securing the debt, maintenance of those Properties in good repair and working order, maintaining adequate insurance and providing timely financial information. The negative covenants under our debt agreements generally restrict our ability to transfer or pledge assets or incur additional debt at a subsidiary level, limit our ability to engage in transactions with affiliates and place conditions on our or our subsidiaries' 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 our loans can trigger an increase in interest rates, an acceleration of payment on the loan in default, and for our secured debt, foreclosure on the property securing the debt, and could cause the credit facility to become unavailable to us. In addition, an event of default by us or any of our subsidiaries with respect to any indebtedness in excess of \$5.0 million generally will result in an event of default the Credit Facility, the 2007 Notes, 2009 Notes, KeyBank I Loan, Morgan Stanley II Loan, Goldman Sachs Loan, Societe Generale I Construction Loan and KeyBank II 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 our business, financial condition, or liquidity.

As of September 30, 2006, no event of default had occurred, and we were in compliance with all covenants related to our outstanding debt. Our secured 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 nine months ended September 30, 2006, there were no circumstances that required prepayment penalties or increased collateral related to our existing debt.

**Warehouse Facilities**

We finance certain of our mezzanine loans through the use of warehouse facilities governed by repurchase agreements. A repurchase agreement is a financing under which we pledge one or more of our mezzanine investments as collateral to secure a loan with the repurchase agreement counterparty (i.e. lender). The amount borrowed under a repurchase agreement is limited to a specified percentage, generally not more than 80%, of the estimated market value of the pledged collateral. Repurchase agreements take the form of a sale of the pledged collateral to a lender at an agreed upon price in return for such lender's simultaneous agreement to resell the same securities back to the borrower at a future date (i.e. the maturity of the borrowing), with periodic interest payments during the term of the sale. The cost of borrowings under repurchase agreements generally corresponds to LIBOR plus a margin. Under our repurchase agreements, we retain beneficial ownership of the pledged collateral, while the lender maintains custody of such collateral. At the maturity of a repurchase agreement, we are required to repay the loan, which may be due in installments over a one-year period, and receive back our pledged collateral from the lender or, at the sole discretion of the lender, we may renew such agreement. Under repurchase agreements, a lender may require us to pledge additional assets to such lender (i.e. a margin call) in the event that the lender determines the estimated fair value of our existing pledged collateral has declined below a specified percentage. Our pledged collateral fluctuates in value due to, among other things, market changes in interest rates and matters affecting the real estate underlying certain pledged collateral.

In order to reduce our exposure to counterparty-related risk, our goal is to enter into repurchase agreements with multiple financial institutions, all of whom have investment-grade long-term debt ratings. As of September 30, 2006, we had outstanding repurchase obligations under two repurchase agreements totaling \$48.3 million with a weighted average borrowing rate of 7.17%.

**Unconsolidated Debt Arrangements**

As of September 30, 2006, the total debt of the unconsolidated joint ventures and investments in which we have ownership interests was \$2.3 billion, of which our share was \$693.7 million. We guaranteed \$5.3 million of this debt as of September 30, 2006. Additional information relating to our unconsolidated debt financing arrangements is contained in Note 8, Investments in Unconsolidated Companies, of Item 1, Financial Statements.

**Derivative Instruments and Hedging Activities**

We use derivative financial instruments to convert a portion of our variable rate debt to fixed rate debt and to manage the fixed to variable rate debt ratio. As of September 30, 2006, we had interest rate swaps and interest rate caps designated as cash flow hedges, which converted \$301.0 million of our variable rate debt to fixed rate debt. During the first quarter of 2006, two interest rate swaps with a combined notional amount of \$200.0 million expired. In April 2006, we entered into an interest rate swap struck at 5.20% to hedge 75% of our anticipated draws on our Ritz-Carlton construction loan. In September 2006, an interest rate swap with a notional amount of \$200.0 million and an interest rate at 3.72% expired and we entered into a new interest rate swap agreement with Bank of America with a notional amount of \$200.0 million with an interest rate at 5.20% and a September 4, 2007, maturity date.



**Table of Contents****Unconsolidated Investments**

The following is a summary of our ownership in significant unconsolidated joint ventures and investments as of September 30, 2006.

<b>Entity</b>	<b>Classification</b>	<b>Our Ownership as of September 30, 2006</b>
Main Street Partners, L.P.	Office (Bank One Center-Dallas) Office (2211 Michelson Office Development Irvine)	50.0% <sup>(1)</sup> 40.0% <sup>(2)</sup>
Crescent Irvine, LLC	Office (Miami Center Miami)	40.0% <sup>(3)(4)</sup>
Crescent Miami Center, LLC	Office (One Buckhead Plaza Atlanta)	35.0% <sup>(5)(4)</sup>
Crescent One Buckhead Plaza, L.P.	Office (Post Oak Central Houston)	23.9% <sup>(6)(4)</sup>
Crescent POC Investors, L.P.	Office (Houston Center Houston)	23.9% <sup>(6)(4)</sup>
Crescent HC Investors, L.P.	Office (The Crescent Dallas)	23.9% <sup>(6)(4)</sup>
Crescent TC Investors, L.P.	Office (Trammell Crow Center, Mortgage Dallas)	23.9% <sup>(7)(4)</sup>
Crescent Ross Avenue Mortgage Investors, L.P.	Office (Trammell Crow Center, Ground Lessor Dallas)	23.9% <sup>(7)(4)</sup>
Crescent Ross Avenue Realty Investors, L.P.	Office (Fountain Place Dallas)	23.9% <sup>(7)(4)</sup>
Crescent Fountain Place, L.P.	Office (Five Post Oak Park Houston)	30.0% <sup>(8)(4)</sup>
Crescent Five Post Oak Park L.P.	Office (One BriarLake Plaza Houston)	30.0% <sup>(9)(4)</sup>
Crescent One BriarLake Plaza, L.P.	Office (Fulbright Tower Houston)	23.9% <sup>(10)(4)</sup>
Crescent 1301 McKinney, L.P.	Office (Three Westlake Park Houston)	20.0% <sup>(11)(4)</sup>
Houston PT Three Westlake Office Limited Partnership	Temperature-Controlled Logistics	31.7% <sup>(12)</sup>
AmeriCold Realty Trust	Resort/Hotel	48.0% <sup>(13)</sup>
CR Operating, LLC	Resort/Hotel	48.0% <sup>(13)</sup>
CR Spa, LLC	Resort Residential Development	26.8% <sup>(14)</sup>
East West Resort Development XIV, L.P., L.L.L.P.	Resort Residential Development	33.2% <sup>(15)</sup>
Blue River Land Company, LLC	Resort Residential Development	35.7% <sup>(16)</sup>
EW Deer Valley, LLC	Other	26.7% <sup>(17)</sup>
SunTx Fulcrum Fund, L.P. (SunTx)	Other	25.0% <sup>(18)(4)</sup>
Redtail Capital Partners, L.P. (Redtail)	Other	40.0% <sup>(19)</sup>
Fresh Choice, LLC	Other	12.5% <sup>(20)</sup>
G2 Opportunity Fund, L.P. (G2)		

(1) The remaining 50% interest is owned by Trizec Properties, Inc.

(2) The remaining 60% interest is owned by an affiliate of Hines.

- (3) The remaining 60% interest is owned by an affiliate of a fund managed by JPM.
- (4) We have negotiated performance based incentives, which we refer to as promoted interest, which allow for additional equity to be earned if return targets are exceeded.
- (5) The remaining 65% interest is owned by Metzler US Real Estate Fund, L.P.
- (6) Each limited partnership is owned by Crescent Big Tex I, L.P., which is owned 60% by a fund advised by JPM and 16.1% by affiliates of GE.
- (7) Each limited partnership is owned by Crescent Big Tex II, L.P., which is owned 76.1% by a fund advised by JPM.

(8)

The remaining 70% interest is owned by an affiliate of GE.

- (9) The remaining 70% interest is owned by affiliates of JPM.
- (10) The partnership is owned by Crescent Big Tex III L.P., which is owned 60% by a fund advised by JPM and 16.1% by affiliates of GE.
- (11) The remaining 80% interest is owned by an affiliate of GE.
- (12) Of the remaining 68.3% interest, 47.6% is owned by Vornado Realty, L.P. and 20.7% is owned by The Yucaipa Companies.
- (13) The remaining 52% interest is owned by the founders of Canyon Ranch and their affiliates. CR Spa, LLC operates three resort spas which offer guest programs and services and sells Canyon Ranch branded

skin care products exclusively at the destination health resorts and the resort spas. CR Operating, LLC operates and manages the two Canyon Ranch destination health resorts, Tucson and Lenox, and collaborates with select real estate developers in developing residential lifestyle communities.

- (14) We provided 41.9% of the initial capitalization and the venture is structured such that we own a 26.8% interest after we receive a preferred return on our invested capital. The remaining 73.2% economic interest is owned by parties unrelated to us. East West Resort Development XIV, L.P., L.L.L.P. was formed to co-develop a

hotel and  
condominiums  
in Avon,  
Colorado.

(15) The remaining  
66.8% interest is  
owned by  
parties unrelated  
to us. Blue  
River Land  
Company, LLC  
was formed to  
acquire, develop  
and sell certain  
real estate  
property in  
Summit County,  
Colorado.

(16) The remaining  
64.3% interest is  
owned by  
parties unrelated  
to us. EW Deer  
Valley, LLC  
was formed to  
acquire, hold  
and dispose of  
its 3.3%  
ownership  
interest in  
Empire  
Mountain  
Village, L.L.C.  
Empire  
Mountain  
Village, LLC  
was formed to  
acquire, develop  
and sell certain  
real estate  
property at Deer  
Valley Ski  
Resort next to  
Park City, Utah.

(17) Of the  
remaining  
73.3%,  
approximately

42.5% is owned by SunTx Capital Partners, L.P. and the remaining 30.8% is owned by a group of individuals unrelated to us. Of our limited partnership interest in SunTx, 6.3% is through an unconsolidated investment in SunTx Capital Partners, L.P., the general partner of SunTx. SunTx Fulcrum Fund, L.P.'s objective is to invest in a portfolio of entities that offer the potential for substantial capital appreciation.

- (18) The remaining 75% interest is owned by Capstead Mortgage Corporation. Redtail was formed to invest up to \$100.0 million in equity in select mezzanine loans on commercial real estate over a two-year period.

(19)

The remaining 60% interest is owned by Cedarlane Natural Foods, Inc. Fresh Choice is a restaurant owner, operator and developer.

- (20) G2 was formed for the purpose of investing in commercial mortgage backed securities and other commercial real estate investments. The remaining 87.5% interest is owned by Goff-Moore Strategic Partners, L.P., or GMSPLP, and by parties unrelated to us. G2 is managed and controlled by an entity that is owned equally by GMSPLP and GMAC Commercial Mortgage Corporation, or GMACCM. The ownership structure of GMSPLP consists of an approximately 92% limited partnership interest owned directly and

indirectly by Richard E. Rainwater, Chairman of our Board of Trust Managers, of which approximately 6% is owned by Darla Moore, who is married to Mr. Rainwater. Approximately 6% general partner interest is owned by John C. Goff, Vice-Chairman of our Board of Trust Managers and our Chief Executive Officer. The remaining approximately 2% general partnership interest is owned by unrelated parties.



**Table of Contents****Significant Accounting Policies****Critical Accounting Policies**

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2005, in Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no significant changes to these policies during 2006.

**Adoption of New Accounting Standards**

**SFAS No. 123R.** In December 2004, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 123R (Revised 2004), *Share-Based Payment*. The new FASB rule requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. We were required to apply SFAS No. 123R beginning January 1, 2006. The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that statement permitted entities the option of continuing to apply the guidance in Opinion No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Effective January 1, 2003, we adopted the fair value expense recognition provisions of SFAS No. 123 on a prospective basis. We adopted SFAS No. 123R using the modified prospective application method which requires, among other things, that we recognize compensation cost for all awards outstanding at January 1, 2006, for which the requisite service has not yet been rendered. Additionally, our prior interim periods and fiscal years do not reflect any restated amounts due to the adoption of SFAS No. 123R. We estimate an additional \$1.4 million and \$0.2 million of expense will be recorded for the years ended December 31, 2006 and 2007, respectively, for stock and unit options due to the adoption of SFAS No. 123R.

**EITF 04-5.** At its June 2005 meeting, the Emerging Issues Task Force, or EITF, reached a consensus regarding Issue No. 04-5 (EITF 04-5), *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF 04-5 was effective immediately for all newly-formed limited partnerships and for existing limited partnership agreements that are modified. The guidance is effective for existing limited-partnership agreements that are not modified no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The guidance provides a framework for addressing the question of when a general partner, as defined in EITF 04-5, should consolidate a limited partnership. The EITF has concluded that the general partner of a limited partnership should consolidate a limited partnership unless (1) the limited partners possess substantive kick-out rights as defined in paragraph B20 of FIN 46(R), *Consolidation of Variable Interest Entities*, or (2) the limited partners possess substantive participating rights similar to the rights described in Issue 96-16, *Investor's Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have Certain Approval or Veto Rights*. The FASB has amended Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and EITF 96-16, to conform and align with the guidelines set forth in EITF 04-5. There was no impact to our financial condition or results of operations from the adoption of EITF 04-5.

**EITF 06-3.** At its June 2006 meeting, the EITF ratified the consensus regarding Issue No. 06-3 (EITF 06-3), *How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation)*. EITF 06-3 is effective for interim and annual periods beginning after December 15, 2006, with earlier application permitted. The scope of EITF 06-3 includes any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value added, and certain excise taxes. The consensus indicates that gross vs. net income statement classification of those taxes within its scope is an accounting policy decision. In addition, for taxes within its scope, the consensus requires the following disclosures: the accounting policy elected for these taxes and the amounts of the taxes reflected gross (as revenue) in the income

statement on an interim and annual basis. We do not believe there will be an impact to our financial condition or results of operations from the adoption of EITF 06-3.

**Table of Contents**

**FASB Interpretation 48.** In July 2006, the FASB issued Interpretation 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*, (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, and are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet a more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. We are currently evaluating the impact, if any, to our financial condition and results of operations from the adoption of FIN 48. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the beginning balance of accumulated deficit on January 1, 2007.

**SFAS No. 157.** In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The new FASB rule defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact, if any, to our financial condition or results of operations from the adoption of SFAS No. 157.

**SAB No. 108.** In September 2006, the Securities and Exchange Commission, or SEC, issued Staff Accounting Bulletin No. 108, *Financial Statements – Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, (SAB 108), which is effective for fiscal years ending after November 15, 2006. SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements. We do not believe there will be an impact to our financial condition or results of operations from the adoption of SAB No. 108.

**Funds from Operations**

FFO, as used in this document, means:

Net Income (Loss) – determined in accordance with GAAP;

excluding gains (or losses) from sales of depreciable operating property;

excluding extraordinary items (as defined by GAAP);

plus depreciation and amortization of real estate assets; and

after adjustments for unconsolidated partnerships and joint ventures.

We calculate 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 we include the effect of operating partnership unitholder minority interests.

The National Association of Real Estate Investment Trusts, or 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. We consider 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 our operating performance.

Accordingly, we believe that to facilitate a clear understanding of our consolidated historical operating results, FFO available to common shareholders – diluted should be considered in conjunction with our net income and cash flows reported in the consolidated financial statements and notes to the financial statements. However, our 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 we apply it.



**Table of Contents****Consolidated Statements of Funds from Operations**

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net income (loss)	\$ 9,324	\$ 79,644	\$ 7,533	\$ 72,814
Adjustments to reconcile net income (loss) to funds from operations available to common shareholders diluted:				
Depreciation and amortization of real estate assets	32,574	33,665	97,127	102,460
Gain on property sales	(9,552)	(105,808)	(14,073)	(109,585)
Gain from promoted interest	(14,742)		(14,742)	
Adjustment for investments in unconsolidated companies:				
Office Properties	5,770	5,548	16,025	15,627
Resort Residential Development Properties	(3,276)	(2,161)	(9,276)	(2,609)
Resort/Hotel Properties	1,204	1,004	3,497	2,813
Temperature-Controlled Logistics Properties	4,212	4,530	11,991	13,729
Unitholder minority interest	1,774	14,049	1,435	12,849
Series A Preferred Share distributions	(5,991)	(5,991)	(17,972)	(17,972)
Series B Preferred Share distributions	(2,019)	(2,019)	(6,056)	(6,056)
Funds from operations available to common shareholders diluted <sup>(1) (2)</sup>	\$ 19,278	\$ 22,461	\$ 75,489	\$ 84,070
Investment Segments:				
Office Properties	\$ 57,282	\$ 54,582	\$ 177,783	\$ 161,513
Resort Residential Development Properties	1,494	5,474	5,802	21,437
Resort/Hotel Properties	8,465	9,352	26,880	28,434
Temperature-Controlled Logistics Properties	2,381	4,606	7,559	11,463
Other:				
Corporate general and administrative	(10,937)	(11,751)	(37,575)	(33,143)
Interest expense	(34,569)	(34,076)	(100,623)	(103,434)
Series A Preferred Share distributions	(5,991)	(5,991)	(17,972)	(17,972)
Series B Preferred Share distributions	(2,019)	(2,019)	(6,056)	(6,056)
Income from mezzanine loans and other loans	6,515	3,380	23,251	6,467
Other <sup>(3)</sup>	(3,343)	(1,096)	(3,560)	15,361
Funds from operations available to common shareholders diluted <sup>(1) (2)</sup>	\$ 19,278	\$ 22,461	\$ 75,489	\$ 84,070
Basic weighted average shares outstanding	102,449	100,663	101,856	99,936
Diluted weighted average shares and units outstanding <sup>(4)</sup>	123,751	119,841	122,655	118,088

- (1) To calculate basic funds from operations available to common shareholders, deduct unitholder minority interest.
  
- (2) In addition to presenting FFO in accordance with the NAREIT definition, we also disclose FFO available to common shareholders as adjusted, which includes adjustments to exclude extinguishment of debt and impairment charges related to real estate assets and include the impact of gain on sale of developed properties and promoted interest. We provide this additional information because management utilizes it, in addition to FFO available to common shareholders diluted, in making operating

decisions and assessing performance, and because we believe that it also is useful to investors in assessing our operating performance.

(dollars in thousands)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
FFO available to common shareholders diluted NAREIT	\$ 19,278	\$ 22,461	\$ 75,489	\$ 84,070
Debt extinguishment charges related to the sale of real estate assets		342		729
Impairment charges related to real estate assets	125		125	
Promoted interests related to the sale of investment in unconsolidated companies	14,742		14,742	
FFO available to common shareholders diluted as adjusted	\$ 34,145	\$ 22,803	\$ 90,356	\$ 84,799

(3) Includes income from investment land sales, interest and other income, extinguishment of debt, income/loss from other unconsolidated companies, other expenses, depreciation and amortization of non-real estate assets, and amortization of deferred financing costs.

(4) See calculations for the amounts presented in the reconciliation

following this  
table.



**Table of Contents**

The following schedule reconciles our basic weighted average shares to the diluted weighted average shares/units presented above (units are presented in share equivalents):

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005	2006	2005
Basic weighted average shares:	102,449	100,663	101,856	99,936
Add: Weighted average units	19,688	17,908	19,401	17,630
Restricted shares and share and unit options	1,614	1,270	1,398	522
Diluted weighted average shares and units	123,751	119,841	122,655	118,088

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

No material changes in our market risk occurred from December 31, 2005 through September 30, 2006. Information regarding our market risk at September 30, 2006, is contained in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2005.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures.** We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934, or the Exchange Act, such as this report on Form 10-Q, 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 management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. These controls and procedures are based closely on the definition of disclosure controls and procedures in Rule 13a-15(e) promulgated under the Exchange Act. Rules adopted by the SEC require that we present the conclusions of the Chief Executive Officer and Chief Financial Officer about the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report.

**Internal Control Over Financial Reporting.** Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, using their cumulative knowledge, experience and judgment as appropriate, and effected by our employees, including management and our Board of Trust Managers, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. This process includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect the transactions and dispositions of our assets in reasonable detail;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are made only in accordance with the authorization procedures we have established; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of any of our assets in circumstances that could have a material adverse effect on our financial statements.

**Limitations on the Effectiveness of Controls.** Management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. In designing and evaluating our control system, management recognizes that any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no

evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any that may affect our operations have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that our design will succeed in achieving its stated goals under all potential future conditions. Over time, our current controls may become inadequate because of changes in conditions that cannot be anticipated at the present time, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Table of Contents**

**Scope of the Evaluation.** The evaluations by our Chief Executive Officer and our Chief Financial Officer of our disclosure controls and procedures and our internal control over financial reporting included a review of procedures and our internal audit, as well as discussions with our Disclosure Committee, independent public accountants and others in our organization, as appropriate. In conducting the evaluation, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. In the course of the evaluation, we sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. The evaluation of our disclosure controls and procedures and our internal control over financial reporting is done on a quarterly basis, so that the conclusions concerning the effectiveness of such controls can be reported in our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. Our internal control over financial reporting is also assessed on an ongoing basis by personnel in our accounting department and by our independent auditors in connection with their audit and review activities.

The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures and our internal control over financial reporting and to make modifications as necessary. Our intent in this regard is that the disclosure controls and procedures and internal control over financial reporting will be maintained and updated (including with improvements and corrections) as conditions warrant. Among other matters, we sought in our evaluation to determine whether there were any significant deficiencies or material weaknesses in our internal control over financial reporting, or whether we had identified any acts of fraud involving personnel who have a significant role in our internal control over financial reporting. This information is important both for the evaluation generally and because the Section 302 certifications require that our Chief Executive Officer and our Chief Financial Officer disclose that information to the Audit Committee of our Board of Trust Managers and our independent auditors and also require us to report on related matters in this section of the Annual Report on Form 10-K. In the Public Company Accounting Oversight Board's Auditing Standard No. 2, a significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process or report external financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the annual or interim financial statements that is more than inconsequential will not be prevented or detected.

**Periodic Evaluation and Conclusion of Disclosure Controls and Procedures.** Our Chief Executive Officer and Chief Financial Officer have conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such controls and procedures were effective as of the end of the period covered by this report.

**Changes in Internal Control Over Financial Reporting.** We made no changes to our internal controls over financial reporting during the three months ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II**

**Item 1A. Risk Factors**

The following updates certain disclosures from Item 1A. Risk Factors previously disclosed in our Form 10-K for the year ended December 31, 2005 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, and should be read in conjunction with those risk factors.

**Our insurance coverage on our properties may be inadequate or unavailable, which may have a material adverse effect on our business.**

We currently carry insurance on all of our properties, including insurance for property damage and third-party liability. We believe this coverage is of the type and amount customarily obtained for or by an owner of real property assets. We intend to obtain similar insurance coverage on subsequently acquired properties. Our existing primary insurance policies expire on November 1 annually.

In the future, we may be unable to renew or duplicate our current insurance coverage in adequate amounts or at reasonable prices. In addition, due to events such as the September 11, 2001 terrorist attacks and the recent hurricanes in Louisiana, Mississippi and Florida, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts, environmental liabilities, or other catastrophic events including windstorms and floods, or, if offered, the expense of obtaining these types of insurance may increase dramatically or may not be justifiable. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Events such as these could adversely affect our results of operations and our ability to meet our obligations. In addition, the debt we use to finance our properties includes covenants that require us to maintain designated levels of insurance coverage with insurers having minimum credit ratings. For example, certain of our loans secured by our coastal properties include requirements that we maintain minimum levels of windstorm insurance, and we are currently in discussions with our lenders regarding the level of these requirements. If we are unable to maintain insurance that meets the requirements of our lenders and if we are unable to amend or obtain waivers of those requirements, we could be in default under these loan agreements, which could have a material adverse effect on our business.

**Item 6. Exhibits**

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

**Table of Contents**

**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

John C. Goff

Date: November 7, 2006

*Vice-Chairman of the Board and Chief Executive Officer*

By /s/ Jerry R. Crenshaw, Jr.

Jerry R. Crenshaw, Jr.

Date: November 7, 2006

*Managing Director and Chief Financial Officer  
(Principal Financial and Accounting Officer)*

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**Table of Contents**

**INDEX TO EXHIBITS**

**EXHIBIT**

**NUMBER DESCRIPTION OF EXHIBIT**

- 3.01 Restated Declaration of Trust of Crescent Real Estate Equities Company, as amended (filed as Exhibit No. 3.1 to the Registrant's Current Report on Form 8-K filed April 25, 2002 (the April 2002 8-K) and incorporated herein by reference)
- 3.02 Fourth Amended and Restated Bylaws of Crescent Real Estate Equities Company (filed as Exhibit No. 3.02 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the 2005 10-K) and incorporated herein by reference)
- 4.01 Form of Common Share Certificate (filed as Exhibit No. 4.03 to the Registrant's Registration Statement on Form S-3 (File No. 333-21905) and incorporated herein by reference)
- 4.02 Statement of Designation of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company dated February 13, 1998 (filed as Exhibit No. 4.07 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and incorporated herein by reference)
- 4.03 Form of Certificate of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company (filed as Exhibit No. 4 to the Registrant's Registration Statement on Form 8-A/A filed on February 18, 1998 and incorporated by reference)
- 4.04 Statement of Designation of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company dated April 25, 2002 (filed as Exhibit No. 4.1 to the April 2002 8-K and incorporated herein by reference)
- 4.05 Statement of Designation of 6-3/4% Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company dated January 14, 2004 (filed as Exhibit No. 4.1 to the Registrant's Current Report on Form 8-K filed January 15, 2004 (the January 2004 8-K) and incorporated herein by reference)
- 4.06 Form of Global Certificate of 6-3/4 Series A Convertible Cumulative Preferred Shares of Crescent Real Estate Equities Company (filed as Exhibit No. 4.2 to the January 2004 8-K and incorporated herein by reference)
- 4.07 Statement of Designation of 9.50% Series B Cumulative Redeemable Preferred Shares of Crescent Real Estate Equities Company dated May 13, 2002 (filed as Exhibit No. 2 to the Registrant's Form 8-A dated May 14, 2002 (the Form 8-A) and incorporated herein by reference)
- 4.08 Form of Certificate of 9.50% Series B Cumulative Redeemable Preferred Shares of Crescent Real Estate Equities Company (filed as Exhibit No. 4 to the Form 8-A and incorporated herein by reference)
- \*4 Pursuant to Regulation S-K Item 601 (b) (4) (iii), the Registrant by this filing agrees, upon request, to furnish to the Securities and Exchange Commission a copy of instruments defining the rights of holders of long-term debt of the Registrant
- 31.01 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.01	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
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