

CRESCENT REAL ESTATE EQUITIES CO

Form 10-Q

August 05, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

**☐ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
FOR QUARTER ENDED June 30, 2005**

COMMISSION FILE NO. 1-13038
CRESCENT REAL ESTATE EQUITIES COMPANY
(Exact name of registrant as specified in its charter)

TEXAS 52-1862813
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification Number)
organization)
777 Main Street, Suite 2100, Fort Worth, Texas 76102

(Address of principal executive offices)(Zip code)

Registrant's telephone number, including area code (817) 321-2100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety (90) days.

YES ☐ NO ○

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act).

YES ☐ NO ○

Number of shares outstanding of each of the registrant's classes of preferred and common shares, as of August 2, 2005:

Series A Convertible Cumulative Preferred Shares, par value \$0.01 per share:	14,200,000
Series B Cumulative Redeemable Preferred Shares, par value \$0.01 per share:	3,400,000
Common Shares, par value \$0.01 per share:	100,927,416

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2005 Long-Term Incentive Plan

Unit Option Agreement

Certification of CEO & CFO Pursuant to Section 302

Certification of CEO & CFO Pursuant to Section 906

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CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

(unaudited)

	June 30, 2005	December 31, 2004
ASSETS:		
Investments in real estate:		
Land	\$ 186,528	\$ 208,492
Land improvements, net of accumulated depreciation of \$26,668 and \$23,592 at June 30, 2005 and December 31, 2004, respectively	67,652	69,086
Buildings and improvements, net of accumulated depreciation of \$444,764 and \$424,698 at June 30, 2005 and December 31, 2004, respectively	1,784,947	1,867,232
Furniture, fixtures and equipment, net of accumulated depreciation of \$36,902 and \$48,304 at June 30, 2005 and December 31, 2004, respectively	28,980	49,576
Land held for investment or development	567,717	501,379
Properties held for disposition, net	12,908	45,254
Net investment in real estate	\$2,648,732	\$2,741,019
Cash and cash equivalents	\$ 84,141	\$ 92,291
Restricted cash and cash equivalents	57,086	93,739
Defeasance investments	283,283	175,853
Accounts receivable, net	50,864	60,004
Deferred rent receivable	66,060	58,190
Investments in unconsolidated companies	391,249	362,643
Notes receivable, net	164,522	102,173
Income tax asset-current and deferred, net	15,820	13,839
Other assets, net	311,256	338,013
Total assets	\$4,073,013	\$4,037,764
LIABILITIES:		
Borrowings under Credit Facility	\$ 177,000	\$ 142,500
Notes payable	2,071,545	2,009,755
Junior subordinated notes	51,547	
Accounts payable, accrued expenses and other liabilities	409,398	422,348
Total liabilities	\$2,709,490	\$2,574,603
COMMITMENTS AND CONTINGENCIES:		
MINORITY INTERESTS:		
Operating partnership, 11,591,389 and 10,535,139 units, at June 30, 2005 and December 31, 2004, respectively	\$ 101,728	\$ 113,572
Consolidated real estate partnerships	47,688	49,339

Total minority interests	\$ 149,416	\$ 162,911
SHAREHOLDERS EQUITY:		
Preferred shares, \$0.01 par value, authorized 100,000,000 shares:		
Series A Convertible Cumulative Preferred Shares, liquidation preference of \$25.00 per share, 14,200,000 shares issued and outstanding at June 30, 2005 and December 31, 2004	\$ 319,166	\$ 319,166
Series B Cumulative Preferred Shares, liquidation preference of \$25.00 per share, 3,400,000 shares issued and outstanding at June 30, 2005 and December 31, 2004	81,923	81,923
Common shares, \$0.01 par value, authorized 250,000,000 shares, 125,248,776 and 124,542,018 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively	1,252	1,245
Additional paid-in capital	2,254,586	2,246,335
Deferred compensation on restricted shares	(1,707)	(2,233)
Accumulated deficit	(982,697)	(885,016)
Accumulated other comprehensive income (loss)	1,716	(1,022)
	\$1,674,239	\$1,760,398
Less shares held in treasury, at cost, 25,120,917 and 25,121,861 common shares at June 30, 2005 and December 31, 2004, respectively	(460,132)	(460,148)
Total shareholders equity	\$1,214,107	\$1,300,250
Total liabilities and shareholders equity	\$4,073,013	\$4,037,764

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

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**CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS**

(dollars in thousands, except share data)

(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2005	2004	2005	2004
REVENUE:				
Office Property	\$ 95,458	\$ 130,659	\$ 187,020	\$ 252,168
Resort Residential Development Property	85,838	55,591	140,313	103,279
Resort/Hotel Property	29,925	47,459	69,759	104,108
Total Property revenue	\$ 211,221	\$ 233,709	\$ 397,092	\$ 459,555
EXPENSE:				
Office Property real estate taxes	\$ 10,521	\$ 16,650	\$ 21,266	\$ 33,640
Office Property operating expenses	37,337	43,351	73,490	84,822
Resort Residential Development Property expense	73,611	51,761	122,447	92,323
Resort/Hotel Property expense	23,723	41,309	55,458	86,868
Total Property expense	\$ 145,192	\$ 153,071	\$ 272,661	\$ 297,653
Income from Property Operations	\$ 66,029	\$ 80,638	\$ 124,431	\$ 161,902
OTHER INCOME (EXPENSE):				
Income from investment land sales	\$ 4,963	\$ 949	\$ 8,424	\$ 949
Gain on joint venture of properties, net	1,008		1,540	
Gain on property sales, net	180		180	
Interest and other income	7,906	2,942	13,210	5,685
Corporate general and administrative	(11,063)	(6,794)	(21,392)	(13,711)
Interest expense	(36,078)	(45,429)	(69,358)	(90,437)
Amortization of deferred financing costs	(2,116)	(3,076)	(4,045)	(6,790)
Extinguishment of debt	(240)	(988)	(1,667)	(2,927)
Depreciation and amortization	(41,507)	(41,888)	(76,089)	(81,921)
Other expenses	(8)	(94)	(676)	(149)
Equity in net income (loss) of unconsolidated companies:				
Office Properties	3,355	1,148	6,685	2,515
Resort Residential Development Properties	71	(393)	192	(307)
Resort/Hotel Properties	(645)	(18)	760	(247)
Temperature-Controlled Logistics Properties	(1,211)	(2,707)	(2,342)	(3,608)
Other	4,571	(515)	10,761	(581)
Total Other Income (Expense)	\$ (70,814)	\$ (96,863)	\$ (133,817)	\$ (191,529)

**LOSS FROM CONTINUING OPERATIONS
BEFORE MINORITY INTERESTS AND**

INCOME TAXES	\$ (4,785)	\$ (16,225)	\$ (9,386)	\$ (29,627)
Minority interests	(1,277)	1,910	(999)	3,786
Income tax benefit	329	5,358	1,545	6,868

**LOSS BEFORE DISCONTINUED
OPERATIONS AND CUMULATIVE
EFFECT OF A CHANGE IN ACCOUNTING
PRINCIPLE**

	\$ (5,733)	\$ (8,957)	\$ (8,840)	\$ (18,973)
Income from discontinued operations, net of minority interests	191	1,971	508	3,564
Impairment charges related to real estate assets from discontinued operations, net of minority interests		(424)		(2,418)
(Loss) gain on real estate from discontinued operations, net of minority interests		(2,073)	1,503	(2,120)
Cumulative effect of a change in accounting principle, net of minority interests				(363)

NET LOSS	\$ (5,542)	\$ (9,483)	\$ (6,829)	\$ (20,310)
Series A Preferred Share distributions	(5,991)	(5,991)	(11,981)	(11,742)
Series B Preferred Share distributions	(2,019)	(2,019)	(4,038)	(4,038)

**NET LOSS AVAILABLE TO COMMON
SHAREHOLDERS BASIC**

	\$ (13,552)	\$ (17,493)	\$ (22,848)	\$ (36,090)
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BASIC EARNINGS PER SHARE DATA:

Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	\$ (0.14)	\$ (0.18)	\$ (0.25)	\$ (0.36)
Income from discontinued operations, net of minority interests		0.02		0.04
Impairment charges related to real estate assets from discontinued operations, net of minority interests				(0.02)
(Loss) gain on real estate from discontinued operations, net of minority interests		(0.02)	0.02	(0.02)
Cumulative effect of a change in accounting principle, net of minority interests				

**Net loss available to common shareholders
basic**

	\$ (0.14)	\$ (0.18)	\$ (0.23)	\$ (0.36)
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DILUTED EARNINGS PER SHARE DATA:

Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	\$ (0.14)	\$ (0.18)	\$ (0.25)	\$ (0.36)
Income from discontinued operations, net of minority interests		0.02		0.04
Impairment charges related to real estate assets from discontinued operations, net of minority interests				(0.02)
(Loss) gain on real estate from discontinued operations, net of minority interests		(0.02)	0.02	(0.02)
Cumulative effect of a change in accounting principle, net of minority interests				
Net loss available to common shareholders diluted	\$ (0.14)	\$ (0.18)	\$ (0.23)	\$ (0.36)

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

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**CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

(dollars in thousands)

(unaudited)

Series A		Series B		Treasury Shares		Common Shares		Additional	Deferred	Accumulated
Preferred Shares	Preferred Shares	Preferred Shares	Net	Shares	Net Value	Shares	Par	Paid-in	Compensation	Deficit
Shares	Net Value	Shares	Value	Shares	Net Value	Shares	Value	Capital	Restricted	(Deficit)
200,000	\$319,166	3,400,000	\$81,923	25,121,861	\$(460,148)	124,542,018	\$1,245	\$2,246,335	\$(2,233)	\$(885,016)
						188,358	2	3,075		
						28,400		412		
								(126)		
						490,000	5	4,861		
				(944)	16					
								29		
									526	
										(74,833)
										(22,848)

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