

CRESCENT REAL ESTATE EQUITIES CO

Form 8-K

May 31, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 8-K**  
**CURRENT REPORT**  
**Pursuant to Section 13 or 15(d) of the**  
**Securities Exchange Act of 1934**  
**Date of Report (Date of earliest event reported): May 24, 2007**  
**Crescent Real Estate Equities Company**  
(Exact name of registrant as specified in its charter)

**Texas**  
(State or other jurisdiction  
of organization)

**1-13038**  
(Commission  
File Number)  
**777 Main Street, Suite 2100**  
**Fort Worth, Texas 76102**  
**(817) 321-2100**

**52-1862813**  
(IRS Employer  
Identification No.)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 230.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 230.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Securities Act (17 CFR 230.13e-4(c))
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SIGNATURE

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**Item 2.01. Completion of Acquisition or Disposition of Assets.**

On March 5, 2007, Crescent Real Estate Equities Limited Partnership, a Delaware limited partnership (the Partnership ), and certain of its subsidiaries and affiliates (the Sellers and, collectively with the Partnership, Crescent ), and Walton TCC Hotel Investors V, L.L.C., a Delaware limited liability company (the Purchaser ), had entered into a series of Purchase and Sale Agreements which were amended on March 23, 2007 effective as of March 5, 2007 (collectively, as so amended, the Original Purchase Agreement ) pursuant to which, among other things, (a) the Sellers agreed to sell to the Purchaser all of the Sellers' rights, title and interest in the Fairmont Sonoma Mission Inn & Spa®, the Sonoma Golf Club, the Ventana Inn & Spa®, the Park Hyatt Beaver Creek Resort & Spa, the Omni Austin hotel and the Austin Centre office building adjacent to the hotel, the Denver Marriott hotel and the Renaissance Houston hotel (collectively, the Properties ) and (b) the Partnership agreed to guaranty certain obligations of the Sellers under the Original Purchase Agreement. The Original Purchase Agreement was terminated by the Purchaser on April 2, 2007 at the end of its due diligence period, and on April 6, 2007, the Sellers and the Purchaser reinstated and amended the Original Purchase Agreement (as so amended, the Purchase Agreement ).

On May 24, 2007, the Sellers closed the sale of the Ventana Inn & Spa®, the Park Hyatt Beaver Creek Resort & Spa, the Omni Austin hotel and the Austin Centre office building adjacent to the hotel, the Denver Marriott hotel and the Renaissance Houston hotel contemplated by the Purchase Agreement. The Sellers expect to close the sale of the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club during the second quarter of 2007. Although there are no assurances that the sale of the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club will be consummated, the pro forma financial information provided under Item 9.01 below assumes the sale of these properties.

The total gross purchase price for the Properties under the Purchase Agreement, which was determined through arm's length negotiations between the parties, was approximately \$620 million, of which the Sellers have received \$445 million. The remaining \$175 million will be received upon closing of the sale of the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club. Crescent's share of the gross purchase price of the Properties, determined after taking into account the interests of its partners in the sales and incentive payments due as a result of the sales, is approximately \$580 million (approximately \$425 million excluding the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club).

Neither Crescent Real Estate Equities Company, the sole shareholder of the general partner and the majority limited partner of the Partnership (the Company ), nor the Partnership, nor any of the Sellers or any affiliate of the foregoing, has a material relationship with Purchaser, other than pursuant to the Purchase Agreement.

**Item 9.01. Financial Statements and Exhibits.**

(b) The following pro forma financial statements are filed as part of this Current Report on Form 8-K.  
Pro Forma Consolidated Balance Sheet as of March 31, 2007 and notes thereto  
Pro Forma Consolidated Statement of Operations for the three months ended March 31, 2007 and notes thereto  
Pro Forma Consolidated Statement of Operations for the year ended December 31, 2006 and notes thereto

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SIGNATURE

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

CRESCENT REAL ESTATE EQUITIES  
COMPANY

Date: May 31, 2007

By: /s/ Jane E. Mody  
Jane E. Mody  
Managing Director and Chief Financial  
Officer

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**Pro Forma Financial Information**

The following unaudited pro forma consolidated financial statements are based upon the Company's consolidated historical financial statements and give effect to the following transactions (the Transactions):

The sale of the Ventana Inn & Spa<sup>®</sup>, the Park Hyatt Beaver Creek Resort and Spa, the Omni Austin hotel, the Austin Centre office building, the Denver Marriott hotel and the Renaissance Houston hotel, which was completed on May 24, 2007;

The sale of the Fairmont Sonoma Mission Inn & Spa<sup>®</sup> and the Sonoma Golf Club which is expected to be completed during the second quarter of 2007; and

The assumed application of the net cash proceeds received from the sale of the Properties.

The unaudited pro forma consolidated balance sheet as of March 31, 2007 is presented as if the Transactions had been completed on March 31, 2007. The unaudited pro forma consolidated statements of operations for the three months ended March 31, 2007 and the year ended December 31, 2006 are presented as if the Transactions had occurred as of January 1, 2006.

In management's opinion, all adjustments necessary to reflect the Transactions have been made, are based on available information and are based on certain assumptions that the Company believes are reasonable. The unaudited pro forma consolidated balance sheet and statements of operations are not necessarily indicative of what actual results of operations of the Company would have been for the periods presented, nor does it purport to predict the Company's results of operations for future periods.

The unaudited pro forma condensed consolidated balance sheet, statements of operations and notes thereto have been derived from, and should be read in conjunction with, the Company's historical consolidated financial statements, including the accompanying notes. Those financial statements are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and the Company's Quarterly Report on Form 10-Q for the three-month period ended March 31, 2007.

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CRESCENT REAL ESTATE EQUITIES COMPANY  
 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
 AS OF MARCH 31, 2007  
 (dollars in thousands)

|  | (A)<br>Crescent<br>Real Estate<br>Equities<br>Company | Pro Forma<br>Adjustments | Consolidated |
|--|---|--------------------------|--------------|
| <b>ASSETS:</b>   |   |                          |              |
| Investments in real estate:  |   |                          |              |
| Land   | \$ 108,431  | \$                       | \$ 108,431   |
| Buildings and improvements, net of accumulated depreciation        | 1,072,795   |                          | 1,072,795    |
| Furniture, fixtures and equipment, net of accumulated depreciation | 14,155  |                          | 14,155       |
| Land held for investment or development                            | 136,804   |                          | 136,804      |
| Properties held for disposition, net                               | 1,896,635   | (383,070) (B)            | 1,513,565    |
| Net investment in real estate                                      | \$ 3,228,820  | \$ (383,070)             | \$ 2,845,750 |
| Cash and cash equivalents  | \$ 33,372   | \$                       | \$ 33,372    |
| Restricted cash and cash equivalents                               | 87,002  |                          | 87,002       |
| Defeasance investments   | 109,244   |                          | 109,244      |
| Accounts receivable, net   | 20,025  | (1,118) (B)              | 18,907       |
| Deferred rent receivable   | 47,870  |                          | 47,870       |
| Investments in unconsolidated companies                            | 257,500   |                          | 257,500      |
| Notes receivable, net  | 157,696   |                          | 157,696      |
| Other assets, net  | 126,732   | (1,921) (C)              | 124,811      |
| Total assets   | \$ 4,068,261  | \$ (386,109)             | \$ 3,682,152 |
| <b>LIABILITIES:</b>  |   |                          |              |
| Borrowings under Credit Facility                                   | \$ 188,500  | \$ (147,077) (C)         | \$ 41,423    |
| Notes payable  | 1,816,833   | (373,630) (C)            | 1,443,203    |
| Junior subordinated notes  | 77,321  |                          | 77,321       |
| Accounts payable, accrued expenses and other liabilities           | 184,859   | (7,845) (B) (C)          | 177,014      |
| Liabilities related to properties held for disposition             | 610,994   | (109,854) (B)            | 501,140      |
| Tax liability-current and deferred, net                            | 7,382   | 9,046 (D)                | 16,428       |
| Total liabilities  | \$ 2,885,889  | \$ (629,360)             | \$ 2,256,529 |
| <b>MINORITY INTERESTS:</b>   |   |                          |              |
| Operating partnership  | \$ 62,789   | \$ 39,622 (E)            | \$ 102,411   |
| Consolidated real estate partnerships                              | 50,002  | (4,388)(B)               | 45,614       |



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|   |    |             |    |             |    |           |
|---|----|-------------|----|-------------|----|-----------|
| Total minority interests  | \$ | 112,791     | \$ | 35,234      | \$ | 148,025   |
| <b>SHAREHOLDERS EQUITY:</b>   |    |             |    |             |    |           |
| Preferred shares, \$0.01 par value, authorized<br>100,000,000 shares:   |    |             |    |             |    |           |
| Series A Convertible Cumulative Preferred Shares,<br>liquidation preference of \$25.00 per share,<br>14,200,000 shares issued and outstanding |    |             |    |             |    |           |
|   | \$ | 319,166     | \$ |             | \$ | 319,166   |
| Series B Cumulative Redeemable Preferred Shares,<br>liquidation preference of \$25.00 per share,<br>3,400,000 shares issued and outstanding   |    |             |    |             |    |           |
|   |    | 81,923      |    |             |    | 81,923    |
| Common shares, \$0.01 par value, authorized<br>250,000,000 shares, 127,933,228 shares issued and<br>102,812,311 shares outstanding            |    |             |    |             |    |           |
|   |    | 1,279       |    |             |    | 1,279     |
| Additional paid-in capital  |    | 2,295,992   |    |             |    | 2,295,992 |
| Accumulated deficit   |    | (1,168,529) |    | 208,017 (F) |    | (960,512) |
| Accumulated other comprehensive (loss) income   |    | (118)       |    |             |    | (118)     |
|   | \$ | 1,529,713   | \$ | 208,017     | \$ | 1,737,730 |
| Less shares held in treasury, at cost, 25,120,917<br>common shares  |    | (460,132)   |    |             |    | (460,132) |
| Total shareholders equity   | \$ | 1,069,581   | \$ | 208,017     | \$ | 1,277,598 |
| Total liabilities and shareholders equity   | \$ | 4,068,261   | \$ | (386,109)   | \$ | 3,682,152 |

See accompanying notes to Pro Forma Consolidated Balance Sheet

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## NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

(dollars in thousands)

The following describes the pro forma adjustments to the Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2007 as if the Transactions described in the first paragraph of Pro Forma Financial Information were completed on March 31, 2007.

A. Reflects Crescent Real Estate Equities Company unaudited consolidated historical Balance Sheet as of March 31, 2007.

B. Reflects adjustments to remove the historical balance sheets of The Properties as outlined in the table below.

|  | Resort/Hotel<br>Properties | Sonoma<br>Golf Club | Austin Centre<br>Office<br>Property |
|--|----------------------------|---------------------|-------------------------------------|
| Properties held for disposition, net                     | \$ 300,631                 | \$ 47,262           | \$ 35,177                           |
| Accounts receivable, net                                 | 1,118                      |                     |                                     |
| <b>Total assets</b>                                      | <b>\$ 301,749</b>          | <b>\$ 47,262</b>    | <b>\$ 35,177</b>                    |
| Accounts payable, accrued expenses and other liabilities | \$ 6,554                   | \$ 510              | \$                                  |
| Liabilities related to properties held for disposition   | 75,259                     | 34,590              | 5                                   |
| Consolidated real estate partnerships                    | 4,388                      |                     |                                     |
| <b>Total liabilities</b>                                 | <b>\$ 86,201</b>           | <b>\$ 35,100</b>    | <b>\$ 5</b>                         |

C. Assumes that certain property specific debt was assumed and the net cash proceeds of \$523.8 million were used to pay down certain debt instruments as outlined in the table below.

|   | Cash<br>Payout/<br>Assumption<br>of Principal | Cash<br>Payout<br>Accrued<br>Interest | Cash<br>Payout<br>Extinguishment<br>of Debt | Write-off<br>Deferred<br>Financing<br>costs |
|---|---|---------------------------------------|---|---|
| Debt assumption:<br>Bank of America Note I (i)<br>(secured by Fairmont Sonoma Mission<br>Inn) | \$ 55,000 (i)                                 | \$                                    | \$  | \$ 581 (i)                                  |
| Debt pay downs:<br>Prudential Note<br>(secured by 707 17th Street/Denver<br>Marriott)         | 36,799  |                                       | (ii) 385 (iii)                              | 149   |
| AEGON Partnership Note<br>(secured by Greenway Plaza/<br>Renaissance Houston)                 | 11,831  |                                       | (ii) 717 (iii)                              | 18  |
| The 2007 Notes  | 250,000                                       | 781                                   | 1,226                                       | 132   |

|  |            |        |          |
|--|------------|--------|----------|
| KeyBank II<br>(secured by distributions from Funding<br>III, II & V) | 75,000     | (ii)   | 150      |
| Credit Facility  | 147,077    | (ii)   | 1,472    |
|  | \$ 520,707 | \$ 781 | \$ 2,328 |
|  |            |        | \$ 1,921 |

(i) Pro forma adjustments for the Bank of America note are included in the adjustments discussed in Note (B).

(ii) Interest on these debt instruments is paid monthly, therefore, interest is not considered in the pro forma adjustment.

(iii) Represents prepayment penalties for early retirement of debt.

D. Reflects estimated taxes payable as a result of the Transactions.

E. Reflects the Operating Partnership's unitholder minority interest, which is approximately 16%, of the amounts described in footnote (F).

F. Reflects, before minority interests and taxes, the gain on the Transactions of \$260.9 million offset by debt pre-payment penalty and write off of deferred financing costs of \$3.9 million. Adjustment is recorded net of minority interests and taxes.

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CRESCENT REAL ESTATE EQUITIES COMPANY  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2007

(dollars in thousands, except share data)

|  | (A)<br>Crescent                    |  | Pro<br>Forma |              |
|--|------------------------------------|--|--------------|--------------|
|  | Real Estate<br>Equities<br>Company |  | Adjustments  | Consolidated |
| REVENUE:   |                                    |  |              |              |
| Office Property  | \$ 77,428                          |  | \$           | \$ 77,428    |
| Other Property   | 1,689                              |  |              | 1,689        |
| Total Property revenue                                   | \$ 79,117                          |  | \$           | \$ 79,117    |
| EXPENSE:   |                                    |  |              |              |
| Office Property real estate taxes                        | \$ 7,226                           |  | \$           | \$ 7,226     |
| Office Property operating expenses                       | 30,993                             |  |              | 30,993       |
| Other Property expenses                                  | 2,223                              |  |              | 2,223        |
| Total Property expense                                   | \$ 40,442                          |  | \$           | \$ 40,442    |
| Income from Property Operations                          | \$ 38,675                          |  | \$           | \$ 38,675    |
| OTHER INCOME (EXPENSE):                                  |                                    |  |              |              |
| Interest and other income                                | \$ 7,289                           |  | \$           | \$ 7,289     |
| Corporate general and administrative                     | (10,322)                           |  |              | (10,322)     |
| Severance and other related costs                        | (2,980)                            |  |              | (2,980)      |
| Interest expense   | (31,201)                           |  | 9,380(C)     | (21,821)     |
| Amortization of deferred financing costs                 | (1,787)                            |  | 663(C)       | (1,124)      |
| Extinguishment of debt                                   | (453)                              |  |              | (453)        |
| Depreciation and amortization                            | (21,587)                           |  |              | (21,587)     |
| Impairment charges                                       | (1,935)                            |  |              | (1,935)      |
| Other expenses   | (2,408)                            |  |              | (2,408)      |
| Equity in net income (loss) of unconsolidated companies: |                                    |  |              |              |
| Office Properties  | 2,230                              |  |              | 2,230        |
| Resort Residential Development Properties                | (7)                                |  |              | (7)          |
| Resort/Hotel Properties                                  | (599)                              |  |              | (599)        |
| Temperature-Controlled Logistics Properties              | (2,671)                            |  |              | (2,671)      |
| Other  | 316                                |  |              | 316          |
| Total other income (expense)                             | \$ (66,115)                        |  | \$ 10,043    | \$ (56,072)  |

LOSS FROM CONTINUING OPERATIONS  
BEFORE MINORITY INTERESTS AND

|                    |    |          |    |                    |    |          |
|--------------------|----|----------|----|--------------------|----|----------|
| INCOME TAXES       | \$ | (27,440) | \$ | 10,043             | \$ | (17,397) |
| Minority interests |    | 5,767    |    | (1,607) <b>(D)</b> |    | 4,160    |
| Income tax expense |    | (1,049)  |    |                    |    | (1,049)  |

|  |    |          |    |                    |    |          |
|--|----|----------|----|--------------------|----|----------|
| LOSS BEFORE DISCONTINUED OPERATIONS                                      | \$ | (22,722) | \$ | 8,436              | \$ | (14,286) |
| Income from discontinued operations, net of minority interests and taxes |    | 15,748   |    | (5,387) <b>(B)</b> |    | 10,361   |

|          |    |         |    |       |    |                    |
|----------|----|---------|----|-------|----|--------------------|
| NET LOSS | \$ | (6,974) | \$ | 3,049 | \$ | (3,925) <b>(E)</b> |
|----------|----|---------|----|-------|----|--------------------|

BASIC EARNINGS PER SHARE DATA:

|  |    |        |  |  |    |        |
|--|----|--------|--|--|----|--------|
| Loss before discontinued operations                                      | \$ | (0.22) |  |  | \$ | (0.14) |
| Income from discontinued operations, net of minority interests and taxes |    | 0.15   |  |  |    | 0.10   |

|                |    |        |  |  |    |        |
|----------------|----|--------|--|--|----|--------|
| Net loss basic | \$ | (0.07) |  |  | \$ | (0.04) |
|----------------|----|--------|--|--|----|--------|

DILUTED EARNINGS PER SHARE DATA:

|  |    |        |  |  |    |        |
|--|----|--------|--|--|----|--------|
| Loss before discontinued operations                                      | \$ | (0.22) |  |  | \$ | (0.14) |
| Income from discontinued operations, net of minority interests and taxes |    | 0.15   |  |  |    | 0.10   |

|                  |    |        |  |  |    |        |
|------------------|----|--------|--|--|----|--------|
| Net loss diluted | \$ | (0.07) |  |  | \$ | (0.04) |
|------------------|----|--------|--|--|----|--------|

WEIGHTED AVERAGE SHARES  
OUTSTANDING BASIC

102,738,586 102,738,586

WEIGHTED AVERAGE SHARES  
OUTSTANDING DILUTED

102,738,586 102,738,586

See accompanying notes to Pro Forma Consolidated Statement of Operations

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## NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

(dollars in thousands)

The following describes the pro forma adjustments to the Unaudited Pro Forma Consolidated Statement of Operations for the three months ended March 31, 2007 as if the Transactions described in the first paragraph of Pro Forma Financial Information were completed on January 1, 2006.

- A. Reflects Crescent Real Estate Equities Company unaudited consolidated historical Statement of Operations for the three months ended March 31, 2007.
- B. Reflects adjustments to remove the revenue and expenses for The Properties for the three months ended March 31, 2007 as outlined in the table below.

|  | Resort/Hotel<br>Properties | Sonoma<br>Golf<br>Club | Austin Centre<br>Office<br>Property |
|--|----------------------------|------------------------|-------------------------------------|
| Income from discontinued operations, net of minority interests and taxes | \$ 5,209                   | \$ (40)                | \$ 218                              |

- C. Net decrease in interest costs assuming that certain property specific debt was assumed and that the net cash proceeds of \$523.8 million were used to pay down certain debt instruments as outlined in Note (C) of the Notes to Unaudited Pro Forma Consolidated Balance Sheet.

|   | Interest<br>Expense | Amortization<br>of Deferred<br>Financing |
|---|---------------------|--|
| Debt assumption:  |                     |  |
| Bank of America Note I (i)<br>(secured by Fairmont Sonoma Mission Inn)    | \$ 742 (i)          | \$ 38 (i)                                |
| Debt pay downs:   |                     |  |
| Prudential Note<br>(secured by 707 17th Street/Denver Marriott)           | 480                 | 12                                       |
| AEGON Partnership Note<br>(secured by Greenway Plaza/Renaissance Houston) | 222                 | 2  |
| The 2007 Notes  | 4,734               | 79                                       |
| KeyBank II<br>(secured by distributions from Funding III, II & V)         | 1,373               | 147                                      |
| Credit Facility   | 2,571               | 423                                      |
|   | \$ 9,380            | \$ 663                                   |

- (i) Pro forma adjustments for the Bank of America note are included in the adjustments

discussed in  
Note (B).

- D. Reflects the Operating Partnership's unitholder minority interest, which is approximately 16%, of the adjustments.
  
- E. Does not reflect the non-recurring gain on the sale of The Properties or the non-recurring debt pre-payment penalties of \$1.9 million or write off of deferred financing costs of \$1.9 million associated with the debt pay downs as outlined in Note (C) of the Notes to Unaudited Pro Forma Consolidated Balance Sheet. The estimated gain net of estimated selling costs and before minority interests and taxes would have been approximately \$260.9 million had the Transactions taken place as of March 31, 2007.

|  |            |
|--|------------|
| Purchase price   | \$ 620,000 |
| Assumption of debt   | (55,000)   |
| Settlement costs, partner's interests and incentive payments | (41,184)   |
| Net book value of the Properties                             | (262,882)  |
| <br>   |            |
| Gain   | \$ 260,934 |

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CRESCENT REAL ESTATE EQUITIES COMPANY  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006

(dollars in thousands, except share data)

|  | (A)<br>Crescent<br>Real Estate<br>Equities<br>Company | Pro Forma<br>Adjustments | Consolidated |
|--|---|--------------------------|--------------|
| <b>REVENUE:</b>  |   |                          |              |
| Office Property  | \$ 414,343  | \$ (5,945) <b>(B)</b>    | \$ 408,398   |
| Resort Residential Development Property                  | 372,148   | (4,845) <b>(B)</b>       | 367,303      |
| Resort/Hotel Property                                    | 142,205   | (142,205) <b>(B)</b>     |              |
| Total Property revenue                                   | \$ 928,696  | \$ (152,995)             | \$ 775,701   |
| <b>EXPENSE:</b>  |   |                          |              |
| Office Property real estate taxes                        | \$ 41,674   | \$ (1,443) <b>(B)</b>    | \$ 40,231    |
| Office Property operating expenses                       | 164,965   | (2,773) <b>(B)</b>       | 162,192      |
| Resort Residential Development Property expense          | 342,994   | (5,076) <b>(B)</b>       | 337,918      |
| Resort/Hotel Property expense                            | 108,391   | (106,437) <b>(B)</b>     | 1,954        |
| Total Property expense                                   | \$ 658,024  | \$ (115,729)             | \$ 542,295   |
| Income from Property Operations                          | \$ 270,672  | \$ (37,266)              | \$ 233,406   |
| <b>OTHER INCOME (EXPENSE):</b>                           |   |                          |              |
| Income from sale of investment in unconsolidated company | \$ 47,709   | \$                       | \$ 47,709    |
| Interest and other income                                | 47,428  | (90) <b>(B)</b>          | 47,338       |
| Corporate general and administrative                     | (44,918)  |                          | (44,918)     |
| Interest expense   | (134,273)   | 36,177 <b>(B) (C)</b>    | (98,096)     |
| Amortization of deferred financing costs                 | (7,605)   | 2,215 <b>(B) (C)</b>     | (5,390)      |
| Depreciation and amortization                            | (147,407)   | 20,964 <b>(B)</b>        | (126,443)    |
| Other expenses   | (12,997)  |                          | (12,997)     |
| Equity in net income (loss) of unconsolidated companies: |   |                          |              |
| Office Properties  | 9,231   |                          | 9,231        |
| Resort Residential Development Properties                | (355)   |                          | (355)        |
| Resort/Hotel Properties                                  | (5,109)   |                          | (5,109)      |
| Temperature-Controlled Logistics Properties              | (15,669)  |                          | (15,669)     |
| Other  | 12,157  |                          | 12,157       |
| Total other income (expense)                             | \$ (251,808)  | \$ 59,266                | \$ (192,542) |

INCOME FROM CONTINUING OPERATIONS  
BEFORE MINORITY INTERESTS AND

|                              |    |         |    |                        |    |         |
|------------------------------|----|---------|----|------------------------|----|---------|
| INCOME TAXES                 | \$ | 18,864  | \$ | 22,000                 | \$ | 40,864  |
| Minority interests           |    | (2,661) |    | (3,259) <b>(B) (D)</b> |    | (5,920) |
| Income tax (expense) benefit |    | 3,475   |    | (2,776) <b>(B)</b>     |    | 699     |

INCOME BEFORE DISCONTINUED  
OPERATIONS

|  |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|
|  | \$ | 19,678 | \$ | 15,965 | \$ | 35,643 |
|--|----|--------|----|--------|----|--------|

BASIC EARNINGS PER SHARE DATA:

|                                       |    |      |  |    |      |
|---------------------------------------|----|------|--|----|------|
| Income before discontinued operations | \$ | 0.19 |  | \$ | 0.35 |
|---------------------------------------|----|------|--|----|------|

DILUTED EARNINGS PER SHARE DATA:

|                                       |    |      |  |    |      |
|---------------------------------------|----|------|--|----|------|
| Income before discontinued operations | \$ | 0.19 |  | \$ | 0.35 |
|---------------------------------------|----|------|--|----|------|

WEIGHTED AVERAGE SHARES  
OUTSTANDING BASIC

|             |             |
|-------------|-------------|
| 102,054,659 | 102,054,659 |
|-------------|-------------|

WEIGHTED AVERAGE SHARES  
OUTSTANDING DILUTED

|             |             |
|-------------|-------------|
| 102,054,659 | 102,054,659 |
|-------------|-------------|

See accompanying notes to Pro Forma Consolidated Statement of Operations

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## NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

(dollars in thousands)

The following describes the pro forma adjustments to the Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2006 as if the Transactions described in the first paragraph of Pro Forma Financial Information were completed on January 1, 2006.

- A. Reflects Crescent Real Estate Equities Company unaudited consolidated historical Statement of Operations for the year ended December 31, 2006.
- B. Reflects adjustments to remove the revenue and expenses for The Properties for the year ended December 31, 2007 as outlined in the table below.

|                                       | Resort/Hotel<br>Properties | Sonoma<br>Golf<br>Club | Austin Centre<br>Office<br>Property |
|---------------------------------------|----------------------------|------------------------|-------------------------------------|
| Property revenue                      | \$ 142,205                 | \$ 4,845               | \$ 5,945                            |
| Property real estate taxes            |                            |                        | (1,443)                             |
| Property expense                      | (106,437)                  | (5,076)                | (2,773)                             |
| Interest and other income             | 90                         |                        |                                     |
| Interest expense                      | (2,489)                    | (167)                  |                                     |
| Amortization of deferred financing    | (144)                      |                        |                                     |
| Depreciation and amortization         | (17,543)                   | (1,026)                | (2,395)                             |
| Minority interests                    | 126                        |                        |                                     |
| Income tax benefit                    | 2,294                      | 482                    |                                     |
| Income before discontinued operations | \$ 18,102                  | \$ (942)               | \$ (666)                            |

- C. Net decrease in interest costs assuming that certain property specific debt was assumed and that the net cash proceeds of \$523.8 million were used to pay down certain debt instruments as outlined in Note (C) of the Notes to Unaudited Pro Forma Consolidated Balance Sheet.

|   | Interest<br>Expense | Amortization<br>of Deferred<br>Financing |
|---|---------------------|--|
| Debt assumption:  |                     |  |
| Bank of America Note I (i)<br>(secured by Fairmont Sonoma Mission Inn)    | \$ 2,854 (i)        | \$ 144 (i)                               |
| Debt pay downs:   |                     |  |
| Prudential Note<br>(secured by 707 17th Street/Denver Marriott)           | 1,921               | 48                                       |
| AEGON Partnership Note<br>(secured by Greenway Plaza/Renaissance Houston) | 902                 | 7  |
| The 2007 Notes  | 18,917              | 317                                      |
| KeyBank II<br>(secured by distributions from Funding III,II & V)          | 1,846               | 291                                      |
| Credit Facility   | 9,935               | 1,408                                    |

\$ 33,521                      \$        2,071

- (i) Pro forma adjustments for the Bank of America note are included in the adjustments discussed in Note (B).

D. Reflects the Operating Partnership's unitholder minority interest, which is approximately 16%, of the adjustments.

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