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

þ **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 organization)	(I.R.S. Employer Identification Number)

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 þ NO o

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

YES þ NO o

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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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, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 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)
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)

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 Preferred Shares		Series B Preferred Shares		Treasury Shares		Common Shares		Additional Paid-in Capital	Deferred Compensation on Restricted Shares	Accumulated (Deficit)	Ac
Shares	Net Value	Shares	Net Value	Shares	Net Value	Shares	Par Value	Capital	Shares	(Deficit)	
14,200,000	$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)	

14,200,000	$319,166	3,400,000	$81,923	25,120,917	$(460,132)	125,248,776	$1,252	$2,254,586	$(1,707)	$(982,697)	$

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

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CRESCENT REAL ESTATE EQUITIES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the six months ended June 30,	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (6,829)	$ (20,310)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	80,134	88,711
Extinguishment of debt	1,777	2,927
Resort Residential Development cost of sales	66,616	40,904
Resort Residential Development capital expenditures	(141,014)	(62,352)
Impairment charges related to real estate assets from discontinued operations, net of minority interests		2,418
(Gain) loss on real estate from discontinued operations, net of minority interests	(1,503)	2,120
Discontinued operations depreciation and minority interests	294	2,586
Income from investment in land sales, net	(8,424)	(949)
Gain on joint venture of properties, net	(1,540)	
Gain on property sales, net	(180)	
Minority interests	999	(3,786)
Cumulative effect of a change in accounting principle, net of minority interests		363
Non-cash compensation	2,971	563
Equity in (earnings) loss from unconsolidated companies:		
Office Properties	(6,685)	(2,515)
Ownership portion of Office Properties Management Fee	3,052	825
Resort Residential Development Properties	(192)	307
Resort/Hotel Properties	(760)	247
Temperature-Controlled Logistics Properties	2,342	3,608
Other	(10,761)	581
Distributions received from unconsolidated companies:		
Office Properties	3,484	3,083
Resort Residential Development Properties	192	
Resort/Hotel Properties	96	
Temperature-Controlled Logistics Properties		1,822
Other	6,594	550
Change in assets and liabilities, net of consolidations, acquisitions and dispositions:		
Restricted cash and cash equivalents	25,042	44,257
Accounts receivable	3,302	(4,186)
Deferred rent receivable	(8,303)	(9,414)
Income tax asset current and deferred, net	(1,981)	(18,933)
Other assets	(8,042)	(11,105)
Accounts payable, accrued expenses and other liabilities	3,339	(18,008)

Net cash provided by operating activities	$ 4,020	$ 44,314
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash impact of consolidation of previously unconsolidated entities	$	$ 334
Proceeds from property sales	48,602	78,826
Proceeds from joint venture partners	147,543	
Acquisition of investment properties	(186,901)	(164,391)
Development of investment properties	(5,278)	(1,881)
Property improvements Office Properties	(4,671)	(6,116)
Property improvements Resort/Hotel Properties	(3,601)	(15,960)
Tenant improvement and leasing costs Office Properties	(31,930)	(46,674)
Resort Residential Development Properties Investments	(10,891)	(17,308)
(Increase) decrease in restricted cash and cash equivalents	(584)	113,275
Purchases of defeasance investments and other securities	(115,710)	(188,572)
Proceeds from defeasance investment maturities and other securities	15,430	5,703
Return of investment in unconsolidated companies:		
Office Properties	801	731
Resort Residential Development Properties	1,474	14
Resort/Hotel Properties		612
Temperature-Controlled Logistics Properties	3,826	90,776
Other	11,950	236
Investment in unconsolidated companies:		
Office Properties	(7,460)	(29)
Resort Residential Development Properties	(60)	(871)
Temperature-Controlled Logistics Properties		(2,406)
Other	(4,178)	(13)
(Increase) decrease in notes receivable	(62,349)	98
Net cash used in investing activities	$(203,987)	$(153,616)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	$ (8,007)	$ (6,139)
Borrowings under Credit Facility	507,300	319,000
Payments under Credit Facility	(472,800)	(325,500)
Notes payable proceeds	290,800	407,542
Notes payable payments	(129,280)	(372,848)
Junior subordinated notes	51,547	
Resort Residential Development Properties notes payable borrowings	115,387	47,193
Resort Residential Development Properties notes payable payments	(58,972)	(24,480)
Amortization of debt premiums	(1,232)	(1,138)
Obligation related to property financing transaction		79,920
Capital distributions to joint venture partners	(5,095)	(3,900)
Capital contributions from joint venture partners	893	1,108
Proceeds from exercise of share and unit options	5,239	362
Reissuance of Treasury Shares	16	
Issuance of preferred shares Series A		71,006
Series A Preferred Share distributions	(11,981)	(11,981)
Series B Preferred Share distributions	(4,038)	(4,038)
Dividends and unitholder distributions	(87,960)	(87,831)
Net cash provided by financing activities	$ 191,817	$ 88,276

DECREASE IN CASH AND CASH EQUIVALENTS	$ (8,150)	$ (21,026)
CASH AND CASH EQUIVALENTS, beginning of period	92,291	78,052
CASH AND CASH EQUIVALENTS, end of period	$ 84,141	$ 57,026

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

CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

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 June 30, 2005.

Operating Partnership	Wholly-owned assets The Avallon I, II, III and IV, Datran Center (two office properties), Dupont Centre and Waterside Commons, included in our Office Segment. The Ritz-Carlton Dallas, included in our Resort/Hotel segment.
	Non wholly-owned assets, consolidated 301 Congress Avenue (50% interest) is included in our Office Segment. Sonoma Mission Inn (80.1% interest) is included in our Resort/Hotel Segment.
	Non wholly-owned assets, unconsolidated Bank One Center (50% interest), Irvine Office Development (40% interest), Bank One Tower (20% interest), Three Westlake Park (20% interest), Four Westlake Park (20% interest), Miami Center (40% interest), 5 Houston Center (25% interest), BriarLake Plaza (30% interest), 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[(1)] (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). These properties are included in our Office Segment. AmeriCold Realty Trust (31.7% interest in 85 properties), included in our Temperature-Controlled Logistics Segment. Canyon Ranch Tucson and Canyon Ranch Lenox (48% interest), included in our Resort/Hotel Segment.
Crescent Real Estate Funding One, L.P.	Wholly-owned assets Carter Burgess Plaza, 125 E. John Carpenter Freeway, The Aberdeen, Regency Plaza One and The Citadel. These properties are included in our Office Segment.
Hughes Center Entities[(2)]	Wholly-owned assets Hughes Center Properties (seven office properties each in a separate limited liability company). These properties are included in our Office Segment.
	Non wholly-owned assets, consolidated 3770 Hughes Parkway (67% interest), included in our Office Segment.
Crescent Real Estate Funding III, IV and V, L.P. (Funding III,	Non wholly-owned assets, consolidated Greenway Plaza Office Properties (ten Office Properties, 99.9% interest). These properties are included in our Office

IV and V)[3]	Segment. Renaissance Houston Hotel, included in our Resort/Hotel Segment.
Crescent Real Estate Funding VIII, L.P. (Funding VIII)	Wholly-owned assets - The Addison, Austin Centre, The Avallon V, Chancellor Park, 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. These properties are included in our Office Segment. The 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 - Barton Oaks Plaza, Briargate Office and Research Center, MacArthur Center I & II, Stanford Corporate Center, and Two Renaissance Square. These properties are included in our Office Segment. The Park Hyatt Beaver Creek Resort & Spa, included in our Resort/Hotel Segment.
Crescent 707 17th Street, L.L.C	Wholly-owned assets 707 17th 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, L.L.C.	Wholly-owned asset Alhambra Plaza (two Office Properties), included in our Office Segment.
Crescent Spectrum Center, L.P. (through Funding VIII)	Non wholly-owned asset, consolidated Spectrum Center (99.9% interest), included in our Office Segment.
Crescent Colonnade, L.L.C.	Wholly-owned asset The BAC-Colonnade Building, included in our Office Segment.
Mira Vista Development Corp. (MVDC)	Non wholly-owned asset, consolidated Mira Vista (98% interest), included in our Resort Residential Development Segment.

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Jefferson Station, L.P.	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, included in our Resort Residential Development Segment.
Houston Area Development Corp. (HADC)	Non wholly-owned assets, consolidated Falcon Point (98% interest) and Spring Lakes (98% interest). These properties are included in our Resort Residential Development Segment.
Desert Mountain Development Corporation (DMDC)	Non wholly-owned assets, consolidated Desert Mountain (93% interest), included in our Resort Residential Development Segment.
Crescent Resort Development Inc. (CRDI)	Non wholly-owned assets, consolidated Brownstones (64% interest), Creekside at Riverfront (64% interest), Delgany (64% interest), Eagle Ranch (60% interest), Gray s Crossing (71% interest), Horizon Pass (64% interest), Hummingbird (64% interest), Main Street Vacation Club (30% interest), Northstar Highlands (57% interest), Northstar Village (57% interest), Old Greenwood (71% interest), Riverbend (60% interest), Village Walk (64% interest), Tahoe Mountain Club (71% interest). These properties are included in our Resort Residential Development Segment.
	Non wholly-owned assets, unconsolidated Blue River Land Company, L.L.C. Three Peaks (30% interest) and EW Deer Valley, L.L.C. (37.1% interest), 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.

See Note 8, Investments in Unconsolidated Companies, for a table that lists our ownership in significant unconsolidated joint ventures and investments as of June 30, 2005.

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 or joint venture financing.

Segments

Our assets and operations consisted of four investment segments at June 30, 2005, 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 June 30, 2005:

Office Segment consisted of 79 office properties, which we refer to as the Office Properties, located in 29 metropolitan submarkets in eight states, with an aggregate of approximately 32.0 million net rentable square feet. Fifty-six of the Office Properties are wholly-owned and 23 are owned through joint ventures, two of which are consolidated and 21 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 two 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.

Resort/Hotel Segment consisted of five luxury and destination fitness resorts and spas with a total of 1,034 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.

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CRESCENT REAL ESTATE EQUITIES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Temperature-Controlled Logistics Segment consisted of our 31.7% interest in AmeriCold Realty Trust, or AmeriCold, a REIT. As of June 30, 2005, AmeriCold operated 100 facilities, of which 84 were wholly-owned, one was partially-owned and fifteen were managed for outside owners. The 85 owned facilities, which we refer to as the Temperature-Controlled Logistics Properties, had an aggregate of approximately 437.2 million cubic feet (17.4 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 six months ended June 30, 2005 and 2004, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of these investment segments at June 30, 2005 and December 31, 2004.

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 six month period ended June 30, 2005, are not necessarily indicative of the results that may be expected for the year ended December 31, 2005.

The consolidated balance sheet at December 31, 2004, 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, 2004.

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

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 will be 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 are continuing to evaluate the impact of the adoption of SFAS No. 123R.

SFAS No. 154. In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections.* This new standard replaces APB Opinion No. 20, *Accounting Changes,* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements.* Among other changes, SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a restatement. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005. We do not believe there will be an impact to our financial condition or results of operations from the adoption of SFAS No. 154.

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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 is effective immediately for all newly-formed limited partnerships and for existing limited partnership agreements that are modified. The guidance will be 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. We do not believe there will be an impact to our financial condition or results of operations from the adoption of EITF 04-5 in the current year. We are continuing to evaluate the impact of EITF 04-5, when applicable, to all existing partnerships.

Significant Accounting Policies

Stock-Based Compensation. 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. During the six months ended June 30, 2005, we granted stock options and recognized compensation expense that was not significant to our results of operations. With respect to our stock options which were granted prior to 2003, 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. 123, our net loss and loss per share would have been reduced to the following pro forma amounts:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands, except per share amounts)	2005	2004	2005	2004
Net loss available to common shareholders, as reported	$(13,552)	$(17,493)	$(22,848)	$(36,090)
Add: Stock-based employee compensation expense included in reported net income	1,718	351	3,081	701
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of minority interest	(1,883)	(697)	(3,483)	(1,499)
Pro forma net loss available to common shareholders	$(13,717)	$(17,839)	$(23,250)	$(36,888)
Loss per share:				
Basic as reported	$ (0.14)	$ (0.18)	$ (0.23)	$ (0.36)
Diluted as reported	$ (0.14)	$ (0.18)	$ (0.23)	$ (0.36)
Basic pro forma	$ (0.14)	$ (0.18)	$ (0.23)	$ (0.37)
Diluted pro forma	$ (0.14)	$ (0.18)	$ (0.23)	$ (0.37)

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

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 six months ended June 30, 2005 and 2004, of basic and diluted earnings per share from Loss before discontinued operations and cumulative effect of a change in accounting principle to Net loss available to common shareholders. The tables also include weighted average shares on a basic and diluted basis.

	For the three months ended June 30, 2005			2004		
(in thousands, except per share amounts)	Income (Loss)	Wtd. Avg. Shares	Per Share Amount	Income (Loss)	Wtd. Avg. Shares	Per Share Amount
Basic/Diluted EPS -						
Loss before discontinued operations and cumulative effect of a change in accounting principle	$ (5,733)	99,676		$ (8,957)	99,022	
Series A Preferred Share distributions	(5,991)			(5,991)		
Series B Preferred Share distributions	(2,019)			(2,019)		
Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$(13,743)	99,676	$(0.14)	$(16,967)	99,022	$(0.18)
Income from discontinued operations, net of minority interests	191			1,971		0.02
Impairment charges related to real estate assets from discontinued operations, net of minority interests				(424)		
(Loss) gain on real estate from discontinued operations, net of minority interests				(2,073)		(0.02)
Cumulative effect of a change in accounting principle, net of minority interests						
Net loss available to common shareholders	$(13,552)	99,676	$(0.14)	$(17,493)	99,022	$(0.18)

	For the six months ended June 30, 2005			2004		

(in thousands, except per share amounts)	Income (Loss)	Wtd. Avg. Shares	Per Share Amount	Income (Loss)	Wtd. Avg. Shares	Per Share Amount
Basic/Diluted EPS -						
Loss before discontinued operations and cumulative effect of a change in accounting principle	$ (8,840)	99,594		$(18,973)	99,007	
Series A Preferred Share distributions	(11,981)			(11,742)		
Series B Preferred Share distributions	(4,038)			(4,038)		
Loss available to common shareholders before discontinued operations and cumulative effect of a change in accounting principle	$(24,859)	99,594	$(0.25)	$(34,753)	99,007	$(0.36)
Income from discontinued operations, net of minority interests	508			3,564		0.04
Impairment charges related to real estate assets from discontinued operations, net of minority interests				(2,418)		(0.02)
Gain (loss) on real estate from discontinued operations, net of minority interests	1,503		0.02	(2,120)		(0.02)
Cumulative effect of a change in accounting principle, net of minority interests				(363)		
Net loss available to common shareholders	$(22,848)	99,594	$(0.23)	$(36,090)	99,007	$(0.36)

The effect of the conversion of the Series A Convertible Cumulative Preferred Shares, stock options, restricted stock and the exchange of Operating Partnership units are not included in the computation of diluted EPS for the three and six months ended June 30, 2005 and 2004, since the effect of the conversions are not dilutive.

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Supplemental Disclosure to Statements of Cash Flows

(in thousands)	For the six months ended June 30, 2005	2004
Supplemental disclosures of cash flow information:		
Interest paid on debt	$ 69,224	$84,724
Interest capitalized Resort Residential Development	8,882	7,444
Interest capitalized Resort/Hotel	269	210
Additional interest paid in conjunction with cash flow hedges	1,663	6,765
Total interest paid	$ 80,038	$99,143
Cash paid for income taxes	$ 472	$12,337
Supplemental schedule of non cash activities:		
Assumption of debt in conjunction with acquisitions of Office Properties and undeveloped land	$	$94,807
Joint venture of Office Properties debt	$155,000	$

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.

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.

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Selected financial information related to each segment for the three and six months ended June 30, 2005 and 2004, and total assets, consolidated property level financing, consolidated other liabilities, and minority interests for each of the segments at June 30, 2005 and 2004, are presented in the following tables:

Selected Financial Information:

	For the three months ended June 30, 2005					
(in thousands)	Office Segment[1]	Resort Residential Development Segment	Resort/Hotel Segment	Temperature-Controlled Logistics Segment	Corporate and Other[2]	Total
Total Property revenue	$95,458	$85,838	$29,925	$	$	$