

CRESCENT REAL ESTATE EQUITIES CO

Form 11-K

June 26, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2006**

**Commission File No. 1-13038  
CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN  
(Full title of plan)  
CRESCENT REAL ESTATE EQUITIES COMPANY  
777 Main Street, Suite 2100  
Fort Worth, Texas 76102  
(Name of issuer and address of principal executive offices)**

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN  
FINANCIAL STATEMENTS  
Years Ended December 31, 2006 and 2005  
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**NOTE:** All other schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted since they are either not applicable or the information required therein has been included in the financial statements or notes thereto.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Trustees of the  
Crescent Real Estate Equities, Ltd. 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of the Crescent Real Estate Equities, Ltd. 401(k) Plan as of December 31, 2006 and 2005, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Crescent Real Estate Equities, Ltd. 401(k) Plan as of December 31, 2006 and 2005, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Form 5500, Schedule H, Line 4i - Schedule of Assets (Held at End of Year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Whitley Penn LLP  
Fort Worth, Texas  
June 22, 2007

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

|  | <b>December 31,</b> |               |
|--|---------------------|---------------|
|  | <b>2006</b>         | <b>2005</b>   |
| <b>Assets</b>  |                     |               |
| Investments, at fair value:  |                     |               |
| Shares of registered investment companies:   |                     |               |
| Mutual funds   | \$ 15,372,778       | \$ 12,840,898 |
| Pooled separate accounts   | 12,829,803          | 9,515,079     |
| Common collective trusts   | 3,248,242           | 2,817,533     |
| Participant loans  | 696,507             | 582,809       |
| Common stock, Crescent Real Estate Equities Company  | 4,495,105           | 4,129,883     |
|  | 36,642,435          | 29,886,202    |
| Participant contributions receivable   |                     | 87,371        |
| Company contributions receivable   | 40,188              | 590,490       |
| <br>   |                     |               |
| Total Assets   | 36,682,623          | 30,564,063    |
| <b>Liabilities</b>   |                     |               |
| Excess contributions payable   | 11,296              | 42,409        |
| <br>   |                     |               |
| Net assets reflecting all investments at fair value  | 36,671,327          | 30,521,654    |
| <br>   |                     |               |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 51,558              | 44,725        |
| <br>   |                     |               |
| Net assets available for benefits  | \$ 36,722,885       | \$ 30,566,379 |

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN  
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

|  | <b>Year Ended December 31,</b> |               |
|--|--------------------------------|---------------|
|  | <b>2006</b>                    | <b>2005</b>   |
| Additions to net assets:                               |                                |               |
| Investment income:                                     |                                |               |
| Net realized and unrealized gains on investments       | \$ 2,171,332                   | \$ 1,964,288  |
| Interest and dividends                                 | 1,259,882                      | 909,958       |
| Total investment income                                | 3,431,214                      | 2,874,246     |
| Contributions:   |                                |               |
| Participants   | 3,455,052                      | 2,887,140     |
| Company  | 2,103,135                      | 1,854,625     |
| Rollovers  | 331,307                        | 573,173       |
| Total contributions                                    | 5,889,494                      | 5,314,938     |
| Total additions to net assets                          | 9,320,708                      | 8,189,184     |
| Deductions from net assets:                            |                                |               |
| Benefits paid to participants                          | 3,068,220                      | 1,704,010     |
| Fund management expenses                               | 95,982                         | 98,944        |
| Total deductions from net assets                       | 3,164,202                      | 1,802,954     |
| Net increase in net assets available for benefits      | 6,156,506                      | 6,386,230     |
| Net assets available for benefits at beginning of year | 30,566,379                     | 24,180,149    |
| Net assets available for benefits at end of year       | \$ 36,722,885                  | \$ 30,566,379 |

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2006 and 2005**

**1. Description of the Plan**

The following description of the Crescent Real Estate Equities, Ltd. 401(k) Plan (the Plan ) provides only general information. The Plan is sponsored by Crescent Real Estate Equities, Ltd. (the Company ). Participants should refer to the Adoption Agreement or Summary Plan Description for a more complete description of the Plan s provisions. The Principal Financial Group ( Principal ) serves as the asset custodian and record keeper for the Plan.

**General**

The Plan, which was adopted effective July 1, 1994, and restated effective January 1, 1997 and January 1, 2006, is a defined contribution plan covering substantially all employees of the Company who have reached 21 years of age and completed 30 days of service. Entry into the Plan is available on the first day of the month after the first 30 days of service.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

The Plan is administered by the 401(k) Trustee Committee (the Committee ) and the Plan Administrator, who are appointed by the Board of Directors of the Company.

**Contributions**

**Participant Elective Deferrals:**

Participants may elect to contribute up to 100% of their salary tax-deferred subject to the maximum deferral amount established by the Internal Revenue Service (\$15,000 for 2006 and \$14,000 for 2005).

**Company Match:**

Company matching contributions are equal to the percentage shown in the schedule below based on the number of years in service, not to exceed 7% of the employee s salary, as defined within the Plan document.

| <b>Years of Service</b> | <b>Percentage Matched</b> |
|-------------------------|---------------------------|
| Less than 2             | 25%                       |
| 2                       | 50%                       |
| 3                       | 75%                       |
| 4                       | 100%                      |

**Discretionary:**

In addition to the matching contribution, the Company may make a discretionary contribution, which is determined and approved by the Board of Trust Managers annually. No discretionary contribution was made for the years ended December 31, 2006 and 2005. All Company discretionary contributions are invested based upon participant elections.

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(K) PLAN**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**1. Description of the Plan continued****Participant Accounts**

Each participant account is credited with the participant's contributions and allocations of (a) the Company's contributions and (b) Plan earnings. Allocations are based on participant contributions or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**Forfeited Accounts**

Forfeiture balances are held in a forfeiture account for twelve months, after which forfeiture balances attributed to the Company's matching contributions can be applied to pay expenses under the Plan. Forfeitures not used to pay expenses shall be applied to reduce future Company contributions. Forfeitures during the years ended December 31, 2006 and 2005, were \$34,675 and \$43,073, respectively. Forfeitures used to pay plan expenses for the years ended December 31, 2006 and 2005, were \$264 and \$4,596, respectively. Company forfeitures used to reduce Company contributions for the years ended December 31, 2006 and 2005, were \$38,064 and \$18,746, respectively.

**Vesting**

The participant's voluntary contributions to the Plan plus actual earnings or losses thereon are fully vested at all times. The participant's share of the Company's matching contributions and earnings or losses thereon vest in accordance with the following schedule:

| Number of<br>Completed Years of<br>Service | Vesting<br>Percentage |
|--|-----------------------|
| 1  | 20%                   |
| 2  | 40%                   |
| 3  | 60%                   |
| 4  | 80%                   |
| 5  | 100%                  |

Company contributions become fully vested in the event of retirement at age 65, disability, or death of a participant.

**Investment Options**

Upon enrollment in the Plan, a participant may direct employer and employee contributions of any percentage in a variety of investment options, which vary in degree of risk. Participants may change their investment options daily. A list of available investment options into which a participant may direct their employee and employer contributions is contained in the supplemental schedule to this report titled Form 5500, Schedule H, Line 4i Schedule of Assets (Held at Year End).

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS (continued)**

**1. Description of the Plan continued**

**Participant Loans**

Participants may borrow from their fund accounts, a minimum of \$1,000 and a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loans are available to all participants. Loan transactions are treated as a transfer to (from) the investment fund from (to) the participant loan fund. Loan terms range from one to five years or a reasonable period of time greater than five years for the purchase of a principal residence. The loans are secured by the balance in the participant's account and bear interest at the prime rate listed in the *Wall Street Journal* plus 2%. The interest rate must be one that a bank or other professional lender would charge for making a loan in a similar circumstance. The interest rates at December 31, 2006 and 2005 were 10.25% and 9.00%, respectively. Principal and interest have a defined repayment period, which provides for payments to be made not less frequently than quarterly.

**Payment of Benefits**

Upon termination of service due to death, disability, retirement, or termination of employment, a participant or designated beneficiary is entitled to receive in a lump sum the value of the participant's vested interest in his or her account as defined by the Plan. Payment shall be made as soon as practicable following the participant's normal retirement date, disability, termination of employment or death, as the case may be.

Payment of benefits to participants with balances less than \$5,000 will be made in a lump-sum distribution.

As of December 31, 2006 and 2005, there were no unpaid benefit payment requests.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of the Plan are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ( GAAP ).

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS (continued)**

**2. Summary of Significant Accounting Policies continued**

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the Plan Administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The plan invests in investment contracts through a collective trust. As required by the FSP, the Statement of net assets available for benefits reflect the fair value of the investment in the collective trust as well as the adjustment of the investment in the collective trust from fair value to contract value relating to the investment contracts. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

**Investment Valuation and Income Recognition**

The Plan's investments are stated at fair value as of the end of the Plan year. Shares of registered investment companies are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year end. The Company shares are valued using quoted prices. Participant loans are valued at cost, which approximates fair value.

The net realized and unrealized gains and losses on investments includes realized gains and losses on sales of investments during the year and unrealized increases or decreases in the market value of investments held at year end. Purchases and sales of investments are reflected on a trade-date basis. Interest income is accrued when earned. Dividend income is recorded on the ex-dividend date. Capital gain distributions are included in dividend income. The Plan's investments are generally subject to market or credit risks customarily associated with debt and equity investments.

Certain funds in which the Plan invests utilize various investment strategies including the use of derivative investments. Derivatives are used to hedge against currency and interest rate fluctuations. Derivative investments underlying the funds are stated at fair market value. The Plan's exposure is limited to the fund(s) utilizing such derivative investments.

**Contributions**

Contributions from the participants and the Company are accrued in the period in which they are deducted in accordance with salary deferral agreements and become obligations of the Company, as determined by the Plans Administrator.

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(K) PLAN**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**2. Summary of Significant Accounting Policies continued****Payment of Benefits**

Benefits are recorded when paid.

**Plan Expenses**

Employees of the Company perform certain administrative functions with no compensation from the Plan. To the extent possible, Plan administrative costs are paid by any available forfeitures. Any remaining expenses will be paid by the Company (See Note 6). These administrative expenses are not reflected in the accompanying financial statements. Under the terms of the Plan, the Plan is not responsible for reimbursing the Company for any fees paid by the Company.

**3. Investments**

Individual investments with market values greater than 5% of net assets available for benefits at December 31, are as follows:

|  | <b>2006</b>  |
|--|--------------|
| T. Rowe Price Mid-Cap Growth                     | \$5,563,964  |
| Vanguard Wellington                              | 4,765,798    |
| Crescent Real Estate Equities Company            | 4,495,105    |
| Principal Stable Value Fund *                    | 3,299,800    |
| Vanguard U.S. Growth Fund                        | 3,296,162    |
| Principal Small Company Blend Account            | 2,675,843    |
| Principal Large Cap Stock Index                  | 2,107,029    |
| Principal International Stock Account            | 2,094,004    |
| Principal Bond & Mortgage Account                | 1,972,067    |
| Principal International Emerging Markets Account | 1,894,475    |
|  | <b>2005</b>  |
| T. Rowe Price Mid-Cap Growth                     | \$ 4,812,199 |
| Crescent Real Estate Equities Company            | 4,129,883    |
| Vanguard Wellington                              | 3,698,354    |
| Vanguard U.S. Growth Fund                        | 3,222,985    |
| Principal Stable Value Fund *                    | 2,862,258    |
| Principal Small Company Blend Account            | 2,210,375    |
| Principal Bond & Mortgage Account                | 1,815,219    |
| Principal Large Cap Stock Index                  | 1,582,416    |
| Principal International Stock Account            | 1,544,019    |

\* Presented at contract value.

At December 31, 2006 and 2005, the percentage of the Plan's net assets held in the Crescent Real Estate Equities Company (Crescent) common stock was 12.2% and 13.8% respectively. The Plan holds 227,600 allocated shares of Crescent's common stock on December 31, 2006, which represents approximately 0.22% of the 102,754,654 Crescent common shares outstanding on that date.

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(K) PLAN**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**3. Investments continued**

During 2006 and 2005, the net realized and unrealized gains (losses) on investments were as follows:

|                          | <b>2006</b>         | <b>2005</b>         |
|--------------------------|---------------------|---------------------|
| Mutual funds             | \$ 330,291          | \$ 616,015          |
| Pooled separate accounts | 1,766,189           | 956,098             |
| Common collective trusts | 118,688             | 92,363              |
| Common stock             | (43,836)            | 299,812             |
|                          | <b>\$ 2,171,332</b> | <b>\$ 1,964,288</b> |

**4. Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100% vested in their entire account balance.

**5. Tax Status**

The Plan has received a determination letter from the Internal Revenue Service dated October 18, 2002, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan has been amended since receiving the determination letter. The Company believes that the Plan, as amended, is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt as of December 31, 2006.

**6. Related Party Expenses**

Some administrative expenses and accounting fees of the Plan are paid by the Company. The Company paid \$37,014 and \$21,476 for administrative and accounting fees on behalf of the Plan during the years ended December 31, 2006 and 2005, respectively. Under the terms of the Plan, the Plan is not responsible for reimbursing the Company for any fees paid by the Company.

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(K) PLAN**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**7. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of the net assets available for benefits per the financial statements to the Form 5500:

|  | <b>December 31,<br/>2006</b> |
|--|------------------------------|
| Net assets available for benefits, per the financial statements                          | \$ 36,722,885                |
| Less adjustment from fair value to contract value for fully benefit-responsive contracts | (51,558)                     |
| <br>Net assets available for benefits, per the Form 5500                                 | <br>\$ 36,671,327            |

**8. Subsequent Event**

Subsequent to year end, Crescent, the sole Parent of the Company entered into a definitive Agreement and Plan of Merger (the Agreement) whereby Crescent will be acquired by a third party. The impact to the Plan related to the Agreement is unknown at this time. Due to the proposed merger, beginning May 23, 2007 through the closing of the merger, plan participants will no longer be allowed to purchase Crescent common stock through the Plan.

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**SUPPLEMENTAL SCHEDULE**

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**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN**  
**FORM 5500, SCHEDULE H, LINE 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)**  
**December 31, 2006**

EIN: 75-2526839

Plan: 001

| (a) | (b) Identity of Issuer                | (c) Description<br>of Investments                                    | (d) Cost | (e) Current<br>Value |
|-----|---------------------------------------|--|----------|----------------------|
|     | T. Rowe                               | Mutual Fund T. Rowe Price Mid-Cap Growth                             | **       | \$ 5,563,964         |
|     | Vanguard                              | Mutual Fund Vanguard Wellington                                      | **       | 4,765,798            |
|     | Vanguard                              | Mutual Fund Vanguard U.S. Growth Fund                                | **       | 3,296,162            |
| *   | Principal                             | Principal Stable Value Fund  | **       | 3,248,242            |
| *   | Principal                             | Pooled Separate Account Small Company Blend Account                  | **       | 2,675,843            |
| *   | Principal                             | Pooled Separate Account Large Cap Stock Index                        | **       | 2,107,029            |
| *   | Principal                             | Pooled Separate Account Principal International Stock Account        | **       | 2,094,004            |
| *   | Principal                             | Pooled Separate Account Bond & Mortgage Account                      | **       | 1,972,067            |
| *   | Principal                             | Pooled Separate Account International Emerging Markets Account       | **       | 1,894,475            |
| *   | Principal                             | Mutual Fund American Century Value Investment Fund                   | **       | 1,146,865            |
| *   | Principal                             | Pooled Separate Account Bond Emphasis Balanced Account               | **       | 890,522              |
|     | Putnam                                | Mutual Fund Putnam Equity Income A Fund                              | **       | 599,989              |
| *   | Principal                             | Pooled Separate Account Principal Lifetime 2030 Separate             | **       | 357,123              |
| *   | Principal                             | Pooled Separate Account Principal Financial Group, Inc.              | **       | 345,179              |
| *   | Principal                             | Pooled Separate Account Principal Govt. Securities Account           | **       | 204,278              |
| *   | Principal                             | Pooled Separate Account Principal Lifetime 2020 Separate             | **       | 178,022              |
| *   | Principal                             | Pooled Separate Account Principal Lifetime 2040 Separate             | **       | 61,159               |
| *   | Principal                             | Pooled Separate Account Principal Lifetime 2010 Separate             | **       | 29,136               |
| *   | Principal                             | Pooled Separate Account Principal Lifetime 2050 Separate             | **       | 18,843               |
| *   | Principal                             | Pooled Separate Account Principal Lifetime Strategic Income Separate | **       | 2,123                |
| *   | Crescent Real Estate Equities Company | Common shares (par value \$.01)                                      | **       | 4,495,105            |
| *   | Participant loans                     | Participant loans (6.00% to 11.50%)                                  | -0-      | 696,507              |

\$ 36,642,435

\* Indicates a party-in-interest to the Plan.

\*\* Cost not necessary because participant directed investments.

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**SIGNATURE**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 25, 2007

CRESCENT REAL ESTATE EQUITIES, LTD.  
401(k) PLAN

By: /s/ Christopher T. Porter  
Christopher T. Porter  
Trustee