

CRESCENT REAL ESTATE EQUITIES CO

Form DEFA14A

July 02, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

CRESCENT REAL ESTATE EQUITIES COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
  - Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

---

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K/A**

**Amendment No. 1**

**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)

**52-1862813**

(IRS Employer  
Identification No.)

**777 Main Street, Suite 2100**

**Fort Worth, Texas 76102**

**(817) 321-2100**

(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))
-

On May 31, 2007, Crescent Real Estate Equities Company (the Company) filed a Form 8-K for the purpose of reporting under Item 2.01 the sale by Crescent Real Estate Equities Limited Partnership, a Delaware limited partnership of which the Company is the sole shareholder of the general partner and the majority limited partner (the Partnership), and certain of its subsidiaries and affiliates (the Sellers and, collectively with the Partnership, Crescent), of six properties to Walton TCC Hotel Investors V, L.L.C., a Delaware limited liability company (the Purchaser) pursuant to a series of Purchase and Sale Agreements effective as of April 6, 2007 (collectively, the Purchase Agreement). Pursuant to Item 9.01 of the Form 8-K, the Company included pro forma financial information accounting for the sale of the six properties, as well as two additional properties, the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club, the sale of which was expected to be consummated under the Purchase Agreement at a later date.

On June 26, 2007, the Purchase Agreement relating to the sale of the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club was terminated as described below. Therefore, the Company is amending the Form 8-K at this time to revise the pro forma financial information included in Item 9.01 to exclude the effects of the sale of the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club. In addition, the Company is reporting the termination of the Purchase Agreement under Item 1.02 hereof.

**Item 1.02. Termination of a Material Definitive Agreement.**

On March 5, 2007, Crescent and 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 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.

On April 6, 2007, the Sellers and the Purchaser reinstated and amended the Original Purchase Agreement pursuant to the Purchase Agreement.

On May 24, 2007, the Sellers closed the sale of six properties, representing all properties covered by the Purchase Agreement, except for the Fairmont Sonoma Mission Inn & Spa® and the Sonoma Golf Club.

On June 26, 2007, SMI Real Estate, LLC, the seller with respect to the Fairmont Sonoma Mission Inn & Spa®, declared Walton TCC Hotel Investors V, L.L.C. ( Original Purchaser ) and WTCC Sonoma Hotel Investors V, L.L.C. ( SMI Assignee ) (together, SMI Purchaser) in default under the Purchase and Sale Agreement relating to the Fairmont Sonoma Mission Inn & Spa® (as reinstated, amended and assigned, the SMI Agreement).

Also on June 26, 2007, pursuant to Section 11.1(a) of the SMI Agreement and Section 11.1(a) of the Purchase and Sale Agreement relating to the Sonoma Golf Club (as reinstated, amended and assigned, the Sonoma Golf Agreement), SMI Real Estate, LLC, Sonoma Golf Club, LLC and Sonoma Golf, LLC (together, Sonoma Sellers) terminated the SMI Agreement and the Sonoma Golf Agreement.

SMI Purchaser was declared in default under the SMI Agreement for its failure to comply with its obligations under the SMI Agreement regarding delivery of documents and information to the Lender on a timely basis in violation of Section 5.4(a) of the SMI Agreement and Section 4(a) of the Reinstatement and Second Amendment to the SMI Agreement.

SMI Purchaser was also declared in default under the SMI Agreement for its failure to use Commercially Reasonable Efforts to attempt to reach agreement with Lender on the form of Existing Debt Assumption Agreement as required by Section 5.4(a) of the SMI Agreement and Section 4(a) of the Reinstatement and Second Amendment to the SMI Agreement.

A default was also declared under the SMI Agreement based on Original Purchaser's improper assignment of the SMI Agreement to the SMI Assignee without Lender consent in violation of Section 14.4 of the SMI Agreement.

Prior to the terminations, Sonoma Sellers were informed that SMI Purchaser would not continue to incur any additional costs and expenses in an effort to close the sale transactions under the SMI Agreement and Sonoma Golf Agreement, which were scheduled for closing at noon on June 28, 2007.

In conjunction with the above-described declarations of default under the SMI Agreement and the termination of the SMI Agreement and Sonoma Golf Agreement, Sonoma Sellers asserted their right to, and made demand for, the sum of approximately \$3.5 million in earnest money under Section 11.1(a) of the SMI Agreement and Section 11.1(a) of the Sonoma Golf Agreement.

As a result, the Sellers will not receive the remaining \$175 million of the total gross purchase price for the properties under the Purchase Agreement, except to the extent the Sellers are able to collect the \$3.5 million in earnest money they have demanded. Crescent's share of the \$175 million, determined after taking into account the interests of its partners in the sales and incentive payments due as a result of the sales, would have been approximately \$147 million.

Neither 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/A.  
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

---

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: July 2, 2007

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

---

**INDEX TO FINANCIAL STATEMENTS**

|  |     |
|--|-----|
| Pro Forma Consolidated Balance Sheet as of March 31, 2007 and notes thereto                                | F-3 |
| Pro Forma Consolidated Statement of Operations for the three months ended March 31, 2007 and notes thereto | F-5 |
| Pro Forma Consolidated Statement of Operations for the year ended December 31, 2006 and notes thereto      | F-7 |

F -1

---



**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 (collectively, the "Properties"), which was completed on May 24, 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.

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   | (254,591)(B)             | 1,642,044    |
| Net investment in real estate                                      | \$ 3,228,820  | \$ (254,591)             | \$ 2,974,229 |
| 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  | (1,177)(B)               | 18,848       |
| 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   | (449)(C)                 | 126,283      |
| Total assets   | \$ 4,068,261  | \$ (256,217)             | \$ 3,812,044 |
| <b>LIABILITIES:</b>  |   |                          |              |
| Borrowings under Credit Facility                                   | \$ 188,500  | \$ (47,761)(C)           | \$ 140,739   |
| 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   | (3,056)(B)(C)            | 181,803      |
| Liabilities related to properties held for disposition             | 610,994   | (15,263)(B)              | 595,731      |
| Tax liability-current and deferred, net                            | 7,382   | 4,934(D)                 | 12,316       |
| Total liabilities  | \$ 2,885,889  | \$ (434,776)             | \$ 2,451,113 |
| <b>MINORITY INTERESTS:</b>   |   |                          |              |
| Operating partnership  | \$ 62,789   | \$ 28,569(E)             | \$ 91,358    |
| Consolidated real estate partnerships                              | 50,002  |                          | 50,002       |

|   |    |             |    |            |    |             |
|---|----|-------------|----|------------|----|-------------|
| Total minority interests  | \$ | 112,791     | \$ | 28,569     | \$ | 141,360     |
| <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, 3,400,000<br>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) |    | 149,990(F) |    | (1,018,539) |
| Accumulated other comprehensive (loss) income   |    | (118)       |    |            |    | (118)       |
|   | \$ | 1,529,713   | \$ | 149,990    | \$ | 1,679,703   |
| Less shares held in treasury, at cost, 25,120,917<br>common shares  |    | (460,132)   |    |            |    | (460,132)   |
| Total shareholders equity   | \$ | 1,069,581   | \$ | 149,990    | \$ | 1,219,571   |
| Total liabilities and shareholders equity   | \$ | 4,068,261   | \$ | (256,217)  | \$ | 3,812,044   |

See accompanying notes to Pro Forma Consolidated Balance Sheet

F -3

## 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 transaction described in the first paragraph of Pro Forma Financial Information were completed on March 31, 2007.

A. Reflects Crescent Real Estate Equities Company 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 | Austin Centre<br>Office<br>Property |
|--|----------------------------|-------------------------------------|
| Properties held for disposition, net                     | \$ 219,414                 | \$ 35,177                           |
| Accounts receivable, net                                 | 1,177                      |                                     |
| Total assets   | \$ 220,591                 | \$ 35,177                           |
| Accounts payable, accrued expenses and other liabilities | \$ 2,275                   | \$                                  |
| Liabilities related to properties held for disposition   | 15,258                     | 5                                   |
| Total liabilities  | \$ 17,533                  | \$ 5                                |

C. Assumes the net cash proceeds of \$424.5 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 Payout<br>Extinguishment<br>of Debt | Write-off<br>Deferred<br>Financing<br>costs |
|--|---|---------------------------------------|--|---|
| Prudential Note ( <i>secured by 707 17th Street/Denver Marriott</i> )            | \$ 36,799                                     | \$ (i)                                | \$ 385(ii)                               | \$ 149                                      |
| AEGON Partnership Note ( <i>secured by Greenway Plaza/ Renaissance Houston</i> ) | 11,831  | (i)                                   | 717(ii)                                  | 18  |
| The 2007 Notes   | 250,000                                       | 781                                   | 1,226(ii)                                | 132   |
| KeyBank II ( <i>secured by distributions from Funding III, II &amp; V</i> )      | 75,000  | (i)                                   |  | 150   |
| Credit Facility  | 47,761  | (i)                                   |  |   |
|  | \$ 421,391                                    | \$ 781                                | \$ 2,328                                 | \$ 449                                      |

(i) Interest on these debt instruments is paid monthly,

therefore,  
interest is not  
considered in  
the pro forma  
adjustment.

(ii) 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 \$186.3 million offset by debt pre-payment penalty and write off of deferred financing costs of \$2.8 million. Adjustment is recorded net of minority interests and taxes.

F -4

---

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)         |             |              |
|--|-------------|-------------|--------------|
|  | Crescent    |             |              |
|  | Real Estate | Pro         |              |
|  | Equities    | Forma       |              |
|  | 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)    | 7,637(C)    | (23,564)     |
| Amortization of deferred financing costs                 | (1,787)     | 240(C)      | (1,547)      |
| 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) | \$ 7,877    | \$ (58,238)  |

|   |    |             |    |            |    |             |
|---|----|-------------|----|------------|----|-------------|
| LOSS FROM CONTINUING OPERATIONS BEFORE<br>MINORITY INTERESTS AND INCOME TAXES | \$ | (27,440)    | \$ | 7,877      | \$ | (19,563)    |
| Minority interests  |    | 5,767       |    | (1,260)(D) |    | 4,507       |
| Income tax expense  |    | (1,049)     |    |            |    | (1,049)     |
| LOSS BEFORE DISCONTINUED OPERATIONS   | \$ | (22,722)    | \$ | 6,617      | \$ | (16,105)    |
| Income from discontinued operations, net of minority<br>interests and taxes   |    | 15,748      |    | (6,444)(B) |    | 9,304       |
| NET LOSS  | \$ | (6,974)     | \$ | 173        | \$ | (6,801)     |
| Series A Preferred Share distributions  |    | (5,990)     |    |            |    | (5,990)     |
| Series B Preferred Share distributions  |    | (2,019)     |    |            |    | (2,019)     |
| NET LOSS AVAILABLE TO COMMON<br>SHAREHOLDERS                                  | \$ | (14,983)    | \$ | 173        | \$ | (14,810)(E) |
| BASIC EARNINGS PER SHARE DATA:  |    |             |    |            |    |             |
| Loss available to common shareholders before<br>discontinued operations       | \$ | (0.30)      |    |            | \$ | (0.23)      |
| Income from discontinued operations, net of minority<br>interests and taxes   |    | 0.15        |    |            |    | 0.09        |
| Net loss available to common shareholders basic                               | \$ | (0.15)      |    |            | \$ | (0.14)      |
| DILUTED EARNINGS PER SHARE DATA:  |    |             |    |            |    |             |
| Loss available to common shareholders before<br>discontinued operations       | \$ | (0.30)      |    |            | \$ | (0.23)      |
| Income from discontinued operations, net of minority<br>interests and taxes   |    | 0.15        |    |            |    | 0.09        |
| Net loss available to common shareholders diluted                             | \$ | (0.15)      |    |            | \$ | (0.14)      |
| WEIGHTED AVERAGE SHARES OUTSTANDING<br>BASIC                                  |    | 102,738,586 |    |            |    | 102,738,586 |
| WEIGHTED AVERAGE SHARES OUTSTANDING<br>DILUTED                                |    | 102,738,586 |    |            |    | 102,738,586 |

See accompanying notes to Pro Forma Consolidated Statement of Operations

## 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 transaction described in the first paragraph of Pro Forma Financial Information were completed on January 1, 2006.

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

|  | Resort/Hotel<br>Properties | Austin Centre<br>Office<br>Property |
|--|----------------------------|-------------------------------------|
| Income from discontinued operations, net of minority interests and taxes | \$ 6,226                   | \$ 218                              |

- C. Net decrease in interest costs assuming the net cash proceeds of \$424.5 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 |
|---|---------------------|--|
| Prudential Note ( <i>secured by 707 17th Street/Denver Marriott</i> )           | \$ 480              | \$ 12                                    |
| AEGON Partnership Note ( <i>secured by Greenway Plaza/Renaissance Houston</i> ) | 222                 | 2  |
| The 2007 Notes  | 4,734               | 79                                       |
| KeyBank II ( <i>secured by distributions from Funding III, II &amp; V</i> )     | 1,373               | 147                                      |
| Credit Facility   | 828                 |  |
|   | \$ 7,637            | \$ 240                                   |

- 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 \$2.3 million or write off of deferred financing costs of \$0.4 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 \$186.3 million had the Transactions taken place as of March 31, 2007.

|   |            |
|---|------------|
| Purchase price                          | \$ 445,000 |
| Settlement costs and incentive payments | (20,500)   |
| Net book value of the Properties        | (238,230)  |
| Gain                                    | \$ 186,270 |



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 | (B)<br>Adjustments<br>for<br>Discontinued<br>Operations | Pro<br>Forma<br>Adjustments | Consolidated |
|---|---|---|-----------------------------|--------------|
| <b>REVENUE:</b>   |   |   |                             |              |
| Office Property   | \$ 414,343  | \$ (94,128)   | \$                          | \$ 320,215   |
| Resort Residential Development<br>Property                  | 372,148   | (364,179)   |                             | 7,969        |
| Resort/Hotel Property                                       | 142,205   | (142,164)   |                             | 41           |
| Total Property revenue                                      | \$ 928,696  | \$ (600,471)  | \$                          | \$ 328,225   |
| <b>EXPENSE:</b>   |   |   |                             |              |
| Office Property real estate taxes                           | \$ 41,674   | \$ (14,110)   | \$                          | \$ 27,564    |
| Office Property operating expenses                          | 164,965   | (41,025)  |                             | 123,940      |
| Resort Residential Development<br>Property expense          | 342,994   | (331,656)   |                             | 11,338       |
| Resort/Hotel Property expense                               | 108,391   | (107,670)   |                             | 721          |
| Total Property expense                                      | \$ 658,024  | \$ (494,461)  | \$                          | \$ 163,563   |
| Income from Property Operations                             | \$ 270,672  | \$ (106,010)  | \$                          | \$ 164,662   |
| <b>OTHER INCOME (EXPENSE):</b>                              |   |   |                             |              |
| Income from sale of investment in<br>unconsolidated company | \$ 47,709   | \$  | \$                          | \$ 47,709    |
| Interest and other income                                   | 47,428  | (1,688)   |                             | 45,740       |
| Corporate general and administrative                        | (44,918)  |   |                             | (44,918)     |
| Interest expense  | (134,273)   | 17,242  | 26,786(D)                   | (90,245)     |
| Amortization of deferred financing costs                    | (7,605)   | 908   | 663(D)                      | (6,034)      |
| Depreciation and amortization                               | (147,407)   | 66,313  |                             | (81,094)     |
| Other expenses  | (12,997)  | (416)   |                             | (13,413)     |
| Equity in net income (loss) of<br>unconsolidated companies: |   |   |                             |              |
| Office Properties   | 9,231   |   |                             | 9,231        |
| Resort Residential Development<br>Properties                | (355)   | 663   |                             | 308          |
| Resort/Hotel Properties                                     | (5,109)   |   |                             | (5,109)      |

Edgar Filing: CRESCENT REAL ESTATE EQUITIES CO - Form DEFA14A

|  |    |           |    |          |             |              |
|--|----|-----------|----|----------|-------------|--------------|
| Temperature-Controlled Logistics Properties  |    | (15,669)  |    |          | (15,669)    |              |
| Other  |    | 12,157    |    |          | 12,157      |              |
| <br>   |    |           |    |          |             |              |
| Total other income (expense)   | \$ | (251,808) | \$ | 83,022   | \$ 27,449   | \$ (141,337) |
| <br>   |    |           |    |          |             |              |
| INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS AND INCOME TAXES                             | \$ | 18,864    | \$ | (22,988) | \$ 27,449   | \$ 23,325    |
| Minority interests   |    | (2,661)   |    | 8,665    | (4,392)(E)  | 1,612        |
| Income tax (expense) benefit   |    | 3,475     |    | (8,139)  |             | (4,664)      |
| <br>   |    |           |    |          |             |              |
| INCOME BEFORE DISCONTINUED OPERATIONS  | \$ | 19,678    | \$ | (22,462) | \$ 23,057   | \$ 20,273    |
| (Loss) income from discontinued operations, net of minority interests and taxes                          |    | (502)     |    | 22,462   | (14,107)(C) | 7,853        |
| Impairment charges related to real estate assets from discontinued operations, net of minority interests |    | (105)     |    |          |             | (105)        |
| Gain on sale of real estate from discontinued operations, net of minority interests and taxes            |    | 14,362    |    |          |             | 14,362       |
| <br>   |    |           |    |          |             |              |
| NET INCOME   | \$ | 33,433    | \$ |          | \$ 8,950    | \$ 42,383    |
| Series A Preferred Share distributions   |    | (23,963)  |    |          |             | (23,963)     |
| Series B Preferred Share distributions   |    | (8,075)   |    |          |             | (8,075)      |
| <br>   |    |           |    |          |             |              |
| NET INCOME AVAILABLE TO COMMON SHAREHOLDERS  | \$ | 1,395     | \$ |          | \$ 8,950    | \$ 10,345    |
| <br>   |    |           |    |          |             |              |
| BASIC EARNINGS PER SHARE DATA:   |    |           |    |          |             |              |
| Loss available to common shareholders before discontinued operations                                     | \$ | (0.12)    |    |          |             | \$ (0.12)    |
| (Loss) income from discontinued operations, net of minority interests and taxes                          |    | (0.01)    |    |          |             | 0.08         |
| Impairment charges related to real estate assets from discontinued operations, net of minority interests |    |           |    |          |             |              |
| Gain on sale of real estate from discontinued operations, net of minority interests and taxes            |    | 0.14      |    |          |             | 0.14         |

|   |    |      |    |      |
|---|----|------|----|------|
| Net income available to common shareholders basic | \$ | 0.01 | \$ | 0.10 |
|---|----|------|----|------|

DILUTED EARNINGS PER SHARE DATA:

|   |    |        |    |        |
|---|----|--------|----|--------|
| Loss available to common shareholders before discontinued operations                                    | \$ | (0.12) | \$ | (0.12) |
| (Loss) income from discontinued operations, net of minority interests and taxes                         |    | (0.01) |    | 0.08   |
| Impairment charges related to real estate assets from discontinued operations, net of minority interest |    |        |    |        |
| Gain on sale of real estate from discontinued operations, net of minority interests and taxes           |    | 0.14   |    | 0.14   |

|   |    |      |    |      |
|---|----|------|----|------|
| Net income available to common shareholders diluted | \$ | 0.01 | \$ | 0.10 |
|---|----|------|----|------|

|   |  |             |  |             |
|---|--|-------------|--|-------------|
| 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  
F -7

---

## 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 transaction described in the first paragraph of Pro Forma Financial Information were completed on January 1, 2006.

- A. Reflects Crescent Real Estate Equities Company consolidated historical Statement of Operations for the year ended December 31, 2006.
- B. Reflects the reclassification of certain office properties, resort residential development properties and resort and hotel properties to discontinued operations pursuant to a Strategic Plan announced by the Company on March 1, 2007.
- C. Reflects adjustments to remove the income for the Properties for the year ended December 31, 2006 as outlined in the table below.

|  | Resort/Hotel<br>Properties | Austin Centre<br>Office<br>Property |
|--|----------------------------|-------------------------------------|
| Income from discontinued operations, net of minority interests and taxes | \$ 14,666                  | \$ (559)                            |

- D. Net decrease in interest costs assuming that the net cash proceeds of \$424.5 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 |
|---|---------------------|--|
| Prudential Note ( <i>secured by 707 17th Street/Denver Marriott</i> )           | \$ 1,921            | \$ 48                                    |
| AEGON Partnership Note ( <i>secured by Greenway Plaza/Renaissance Houston</i> ) | 902                 | 7  |
| The 2007 Notes  | 18,917              | 317                                      |
| KeyBank II ( <i>secured by distributions from Funding III,II &amp; V</i> )      | 1,846               | 291                                      |
| Credit Facility   | 3,200               |  |
|   | \$ 26,786           | \$ 663                                   |

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