

CRESCENT REAL ESTATE EQUITIES CO

Form 11-K

June 29, 2005

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 11-K

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

For the fiscal year ended December 31, 2004

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)

CRESCENT REAL ESTATE EQUITIES, LTD.

401(k) PLAN

FINANCIAL STATEMENTS

Years Ended December 31, 2004 and 2003

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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
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, 2004 and 2003 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. 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, 2004 and 2003, and the changes in 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 for Investment Purposes at Year End 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 audit 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

Fort Worth, Texas
April 29, 2005

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

	December 31,	
	2004	2003
Assets		
Investments, at fair value:		
Participant directed:		
Shares of registered investment companies:		
Mutual funds	\$ 10,058,141	\$ 7,285,664
Pooled separate accounts	7,341,431	5,606,482
Common collective trusts	2,407,726	2,008,024
Participant loans	543,367	381,874
Common stock, Crescent Real Estate Equities Company	3,269,463	2,687,283
Non-Participant directed:		
Common stock, Crescent Operating, Inc.	185	153
	23,620,313	17,969,480
Company contributions receivable	562,607	
Total Assets	24,182,920	17,969,480
Liabilities		
Excess contributions payable	2,771	
Net assets available for benefits	\$ 24,180,149	\$ 17,969,480

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

	Year Ended December 31,	
	2004	2003
Additions in net assets attributed to:		
Investment income:		
Net realized and unrealized gains on investments	\$ 1,871,395	\$ 2,450,984
Interest and dividends	586,415	278,660
	2,457,810	2,729,644
Contributions:		
Participants	2,692,992	2,282,445
Company	1,769,806	1,423,205
Rollovers	427,689	162,066
	4,890,487	3,867,716
Total additions	7,348,297	6,597,360
Deductions from net assets attributed to:		
Benefits paid to participants	1,030,301	451,580
Fund management expenses	107,327	69,343
	1,137,628	520,923
Net increase in net assets available for benefits	6,210,669	6,076,437
Net assets available for benefits beginning of year	17,969,480	11,893,043
Net assets available for benefits end of year	\$ 24,180,149	\$ 17,969,480

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

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, 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 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 Executive Compensation Committee (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 from 1% up to 25% of their salary tax-deferred up to the maximum deferral amount established by the Internal Revenue Service (\$13,000 for 2004 and \$12,000 for 2003).

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.

Years of Service	Percentage Matched
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 payment was made for the years ended

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

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2004 and 2003. All Company contributions are invested based upon participant elections.

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 attributed to the Company's matching contributions shall be first applied to pay expenses under the Plan. Forfeitures not used to pay expenses shall be applied to reduce future Company contributions. Forfeitures for the years ended December 31, 2004 and 2003, were \$32,062 and \$13,720, respectively. Company forfeitures used to pay plan administrative expenses for the years ended December 31, 2004 and 2003, were \$14,251 and \$6,771, respectively.

Vesting

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

Number of Completed Years of Service	Vesting 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 from 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 For Investment Purposes At Year End".

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

NOTES TO FINANCIAL STATEMENTS (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 only after Principal has evaluated the applicant's credit worthiness and purpose and the terms of the loan. 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, 2004 and 2003 were 7.00% and 6.00%, respectively. Principal and interest have a defined repayment period, which provides for payments to be made not less frequently than quarterly.

Payment of Benefits

On 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, 2004 and 2003, 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).

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.

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

NOTES TO FINANCIAL STATEMENTS (continued)

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.

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 funds are stated at fair market value. The Plan's exposure is limited to the fund(s) utilizing such derivative investments.

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.

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 Plan's Administrator.

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 7). 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.

Table of Contents**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN****NOTES TO FINANCIAL STATEMENTS (continued)****3. Investments**

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

	2004
Principal Stable Value Fund	\$ 2,407,726
Principal Bond & Mortgage Account	1,620,027
Principal Small Company Blend Account	1,837,613
Principal Large Cap Stock Index	1,255,638
T. Rowe Price Mid-Cap Growth	3,710,116
Vanguard U.S. Growth Fund	2,484,313
Vanguard Wellington	3,136,375
Crescent Real Estate Equities Company	3,269,463

	2003
Principal Stable Value Fund	\$ 2,008,024
Principal Bond & Mortgage Account	1,409,692
Principal Small Company Blend Account	1,375,997
T. Rowe Price Mid-Cap Growth	2,672,753
Vanguard U.S. Growth Fund	2,011,873
Vanguard Wellington	2,358,258
Crescent Real Estate Equities Company	2,687,283

At December 31, 2004 and 2003, the percentage of the Plan's investments held in the Company's common stock was 13.50% and 15.00%, respectively. The 179,050 allocated shares of the Company's common stock held by the Plan on December 31, 2004 represents .14% of the 124,542,018 Crescent Real Estate Equities Company common shares outstanding on that date.

During 2004 and 2003, the Plan's investments net realized and unrealized gains were as follows:

	2004	2003
Mutual Funds	\$ 772,540	\$ 1,330,980
Pooled Separate Accounts	835,197	956,412
Common Collective Trusts	71,300	68,813
Common Stock	192,358	94,779
	\$ 1,871,395	\$ 2,450,984

Table of Contents**CRESCENT REAL ESTATE EQUITIES, LTD. 401(k) PLAN****NOTES TO FINANCIAL STATEMENTS (continued)****4. Non-participant Directed Investments**

Information about the net assets and significant components of the changes in net assets relating to the non participant-directed investments is as follows:

	2004	2003
Net Assets:		
Crescent Operating, Inc. stock	\$ 185	\$ 153
Changes in Net Assets:		
Interfund Transfers and Distributions	(6)	\$ (8)
Gain (Loss) on Sales	38	(13)
	\$ 32	\$ (21)

5. 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.

6. 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 (see Note 8). The Plan Sponsor 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, 2004.

7. Related Party Expenses

Some administrative expenses and accounting fees of the Plan are paid by the Company. The Company paid \$19,230 and \$18,590 for administrative and accounting fees on behalf of the Plan during the years ended December 31, 2004 and 2003, respectively (see Note 2). 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)*

8. Plan Amendment

The Plan was amended, effective February 26, 2004 to allow participants to withdraw any part of their vested account which results from any or all contributions in the event of hardship due to an immediate and heavy financial need.

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YEAR END****December 31, 2004****EIN: 75-2526839****Plan: 001**

(a) (b) Identity of Issuer	(c) Description of Investments	(d) Cost	(e) Current Value
* Principal	Principal Stable Value Fund	**	\$ 2,407,726
* Principal	Pooled Separate Account - Bond & Mortgage Account	**	1,620,027
* Principal	Pooled Separate Account - Bond Emphasis Balanced Account	**	616,221
* Principal	Pooled Separate Account - Small Company Blend Account	**	1,837,613
* Principal	Pooled Separate Account - Large Cap Stock Index	**	1,255,638
* Principal	Pooled Separate Account - Principal Int Stock Account	**	1,004,977
* Principal	Pooled Separate Account - Principal Financial Group, Inc.	**	302,406
Principal	Pooled Separate Account - International Emerging Markets Account	**	625,411
* Principal	Pooled Separate Account - Principal Govt. Securities Account	**	79,138
* Principal	Mutual Fund - American Century Value Investment Fund	**	519,253
T. Rowe	Mutual Fund - T. Rowe Price Mid-Cap Growth	**	3,710,116
Vanguard	Mutual Fund - Vanguard U.S. Growth Fund	**	2,484,313
Vanguard	Mutual Fund - Vanguard Wellington	**	3,136,375
Putnam	Mutual Fund - Putnam Equity Income A Fund	**	208,084
* Crescent Real Estate Equities Company	Common shares (Par Value \$.01)	**	3,269,463
* Crescent Operating, Inc.	Common shares (Par Value \$.01)	\$16,998	185
* Participant Loans	Participant loans (6.00% to 11.00%)	-0-	543,367
		\$16,998	\$ 23,620,313

* 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 29, 2005

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

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

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EXHIBIT

NUMBER DESCRIPTION OF EXHIBIT

32.01 Consent of Registered Independent Public Accounting Firm