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CRESCENT REAL ESTATE EQUITIES CO

Form S-4

January 16, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 16, 2003

REGISTRATION NO. 333-

=====

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

CRESCENT REAL ESTATE EQUITIES COMPANY
(Exact Name of Registrant as Specified in its Charter)

TEXAS	6798	52-1862813
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employee Identification No.)

777 MAIN STREET
SUITE 1200
FORTH WORTH, TEXAS 76102
(817) 321-2100

(Address, including zip code, and telephone number, including area
code, of Registrant's principal executive offices)

JOHN C. GOFF
CHIEF EXECUTIVE OFFICER
777 MAIN STREET
SUITE 1200
FORT WORTH, TEXAS 76102
(817) 321-2100

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copies to:

SYLVIA M. MAHAFFEY, ESQ
SHAW PITTMAN
2300 N STREET, N.W.
WASHINGTON, D.C.
(202) 663-8000

DAVID M. DEAN
CRESCENT REAL ESTATE EQUITIES COMPANY
777 MAIN STREET, SUITE 2100
FORT WORTH, TEXAS 76102
(817) 321-2100

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as
practicable after the effective date of this Registration Statement.

If the securities being registered on this form are being offered in
connection with the formation of a holding company and there is compliance with
General Instruction G, check the following box.

If this form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act registration statement number of the earlier effective

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registration for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT TO BE REGISTERED
Common stock, par value \$.01	\$10,828,497	(1)	\$ 10,828,497	\$ 996.2

- (1) Omitted pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933, as amended.
- (2) Calculated pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933, as amended.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JANUARY 16, 2003

PROXY STATEMENT/PROSPECTUS

CRESCENT OPERATING, INC.
 777 MAIN STREET, SUITE 1240
 FORT WORTH, TEXAS 76102
 (817) 321-1601

CRESCENT REAL ESTATE EQUITIES COMPANY
 Issuer of the common shares that
 may be issued to stockholders of Crescent
 Operating, Inc., as described in this proxy
 statement/prospectus

THE PROXY STATEMENT/PROSPECTUS IS DATED JANUARY __, 2003 AND IS FIRST BEING MAILED TO STOCKHOLDERS OF CRESCENT OPERATING ON OR ABOUT JANUARY __, 2003.

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

The special meeting of stockholders of Crescent Operating, Inc., a Delaware corporation, or Crescent Operating, will be held at The Fort Worth Club, located at 306 West 7th Street, Fort Worth, Texas, on Thursday, March 6, 2003 at 10:00 a.m., Central Time, to vote on a proposal to accept a bankruptcy plan of Crescent Operating to be implemented under Chapter 11 of the United States Bankruptcy Code. The Crescent Operating bankruptcy plan provides as follows:

- Crescent Real Estate Equities Company and its affiliates, or Crescent Real Estate, will make sufficient funds available to Crescent Operating to pay in full or otherwise resolve the claims of those creditors of Crescent Operating that Crescent Operating identified in the original Settlement Agreement, other than Crescent Real Estate, and to cover the budgeted expenses of implementing the Settlement Agreement and seeking to confirm the bankruptcy plan.
- If the bankruptcy plan is accepted by holders of at least two-thirds of the shares of Crescent Operating common stock voted at the special meeting and is confirmed by the bankruptcy court, then Crescent Operating will cancel all outstanding shares of its common stock and Crescent Real Estate will issue to each holder of Crescent Operating common stock a number of common shares of Crescent Real Estate equal to:
 - the ownership percentage of Crescent Operating held by such holder on the confirmation date of the bankruptcy plan, multiplied by
 - \$16.0 million less the aggregate amount of claims and expenses, including the expenses of Crescent Real Estate but excluding payments to satisfy an approximately \$15.5 million potential claim against Crescent Operating by Bank of America, that Crescent Real Estate pays in connection with the Crescent Operating bankruptcy and the reorganization transactions, divided by
 - the average of the daily closing prices per Crescent Real Estate common share as reported on the New York Stock Exchange Composite Transactions reporting system for the 10 consecutive trading days immediately preceding the date of confirmation of the bankruptcy plan.

As of December 31, 2002, Crescent Real Estate had incurred approximately \$8.5 million in claims and expenses in connection with the Crescent Operating bankruptcy and the reorganization transactions and expects to incur an aggregate of \$10.6 million to \$13.8 million in total claims and expenses. Accordingly, the total value of the Crescent Real Estate common shares issuable to Crescent Operating's stockholders is currently expected to be between \$5.4 million and \$2.16 million or \$0.50 to \$0.20 per share of Crescent Operating common stock. Regardless of the total amount of claims and expenses that are paid by Crescent Real Estate in connection with the bankruptcy plan and the reorganization transactions, if the bankruptcy plan is accepted by the requisite vote of Crescent Operating stockholders and is confirmed by the bankruptcy court, then the stockholders of Crescent Operating will receive common shares of Crescent Real Estate with a value of at least \$2.16 million, or \$0.20 per share of Crescent Operating common stock. In no event will the Crescent Operating stockholders be entitled to reconsider their approval of the bankruptcy plan. Crescent Real Estate common shares are listed on the New York Stock Exchange under the symbol "CEI."

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THE SOLE DIRECTOR OF CRESCENT OPERATING HAS APPROVED THE BANKRUPTCY PLAN AND, AFTER CONSULTATION WITH OUTSIDE ADVISORS, HAS DETERMINED THAT THE BANKRUPTCY PLAN IS FAIR TO, AND IN THE BEST INTERESTS OF, CRESCENT OPERATING'S STOCKHOLDERS. ACCORDINGLY, THE SOLE DIRECTOR RECOMMENDS THAT YOU VOTE "FOR" ACCEPTANCE OF THE BANKRUPTCY PLAN.

INVESTING IN CRESCENT REAL ESTATE COMMON SHARES INVOLVES RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 23.

Only stockholders of record of Crescent Operating at the close of business on January 8, 2003 will be entitled to notice of, and to vote at, the special meeting or any adjournment or postponement thereof.

Dated January __, 2003

By order of the Sole Director

/s/ JEFFREY L. STEVENS

Jeffrey L. Stevens, Chief Executive Officer

YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE SIGN AND DATE THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED OR VOTE BY TELEPHONE IN ACCORDANCE WITH THE DIRECTIONS CONTAINED ON THE PROXY CARD. PROXIES ARE REVOCABLE, AND YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON AT THE SPECIAL MEETING.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

WHERE YOU CAN FIND MORE INFORMATION

CRESCENT OPERATING, INC.

Crescent Operating files annual, quarterly, and special reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy any document on the Securities and Exchange Commission's website at <http://www.sec.gov> or at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Securities and Exchange Commission's Regional Office at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Crescent Operating's common stock is traded on the Over The Counter Bulletin Board, or the OTC Bulletin Board, market under the symbol "COPI.OB."

WHO CAN HELP ANSWER MY QUESTIONS?

If you have additional questions about the Crescent Operating bankruptcy plan, you should contact:

Crescent Operating, Inc.
Attention: Jeffrey L. Stevens or Kiersten Thompson
777 Main Street, Suite 1240

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Fort Worth, Texas 76102
Phone Number: (817) 321-1602

CRESCENT REAL ESTATE EQUITIES COMPANY

Crescent Real Estate files annual, quarterly, and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document on the Securities and Exchange Commission's website at <http://www.sec.gov> or at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Securities and Exchange Commission's Regional Office at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. In addition, Crescent Real Estate's common shares are listed on the New York Stock Exchange, or NYSE, under the symbol "CEI". You can inspect any reports, proxy statements and other information at the offices of the NYSE, 20 Broad Street, New York, NY 10005.

Crescent Real Estate has filed with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, that registers the distribution to Crescent Operating stockholders of the Crescent Real Estate common shares to be issued in connection with the Crescent Operating bankruptcy plan. In addition to serving as a proxy statement of Crescent Operating for the special meeting of Crescent Operating's stockholders, this document also serves as a prospectus for the Crescent Real Estate common shares to be issued under the Crescent Operating bankruptcy plan. The registration statement, including the attached exhibits and schedules, contains additional relevant information about Crescent Real Estate. The rules and regulations of the Securities and Exchange Commission permit Crescent Real Estate to omit from this document some of the information included in the registration statement. Copies of the registration statement, including exhibits, may be inspected without charge at the offices of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and copies may be obtained from the Securities and Exchange Commission at prescribed rates. The registration statement is also available from the Securities and Exchange Commission's website.

The Securities and Exchange Commission allows Crescent Real Estate to "incorporate by reference" information into this document. This means that Crescent Real Estate can disclose important information to you by referring you to another document filed with the Securities and Exchange

Commission. The information incorporated by reference is considered to be part of this proxy statement/prospectus, except to the extent it has been superceded by information that is included in this document or in a document subsequently filed with the Securities and Exchange Commission that is incorporated by reference.

Crescent Real Estate incorporates by reference important business and financial information not otherwise included in this proxy statement/prospectus but contained in the following documents, and any additional documents filed by Crescent Real Estate with the Securities and Exchange Commission under Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, between the date of this proxy statement/prospectus and the date of the Crescent Operating special meeting:

- Crescent Real Estate's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002;
- Crescent Real Estate's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002;

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- Amendment No. 1 to Crescent Real Estate's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.
- Crescent Real Estate's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002;
- Amendment No. 3 to Crescent Real Estate's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001.
- Amendment No. 2 to Crescent Real Estate's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001;
- Amendment No. 1 to Crescent Real Estate's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001;
- Crescent Real Estate's Annual Report on Form 10-K for the fiscal year ended December 31, 2001;
- Crescent Real Estate's Current Report on Form 8-K filed June 26, 2002;
- Crescent Real Estate's Current Report on Form 8-K filed May 14, 2002;
- Amendment No. 1 to Crescent Real Estate's Current Report on Form 8-K/A filed April 29, 2002;
- Crescent Real Estate's Current Report on Form 8-K filed April 25, 2002;
- Crescent Real Estate's Current Report on Form 8-K filed April 16, 2002;
- Crescent Real Estate's Current Report on Form 8-K filed April 1, 2002;
- Crescent Real Estate's Definitive Proxy Statement on Schedule 14A filed May 16, 2002;
- Crescent Real Estate's Registration Statement on Form 8-B filed on March 24, 1997 registering the Crescent Common Shares under Section 12(b) of the Exchange Act.

Documents incorporated by reference are available from Crescent Real Estate, without charge, excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference as an exhibit in this proxy statement/prospectus. You can obtain documents incorporated by reference in

this proxy statement/prospectus by requesting them in writing or by telephone from Crescent Real Estate at the following address:

Crescent Real Estate Equities Company
777 Main Street, Suite 2100
Fort Worth, Texas 76102
Attention: Keira B. Moody
(817) 321-2100

If you would like to request documents, please do so by February 27, 2003 to receive them before the special meeting. If you request any incorporated document, Crescent Real Estate will mail it to you by first-class mail, or

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another equally prompt means, as soon as practicable following receipt of your request.

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NOTICES TO STOCKHOLDERS

THE CRESCENT OPERATING BANKRUPTCY PLAN IS TO BE FILED IN CONNECTION WITH A CASE TO BE COMMENCED IN THE FUTURE BY CRESCENT OPERATING UNDER CHAPTER 11 OF THE U.S. BANKRUPTCY CODE. AT THIS TIME, CRESCENT OPERATING HAS NOT COMMENCED A CHAPTER 11 CASE. IF SUFFICIENT VOTES ARE RECEIVED ACCEPTING THE CRESCENT OPERATING BANKRUPTCY PLAN, IT IS CRESCENT OPERATING'S PRESENT INTENTION TO COMMENCE A CHAPTER 11 CASE AND SEEK TO HAVE THE CRESCENT OPERATING BANKRUPTCY PLAN CONFIRMED BY THE BANKRUPTCY COURT AS PROMPTLY AS PRACTICABLE. IF THE CRESCENT OPERATING BANKRUPTCY PLAN IS NOT ACCEPTED BY THE REQUIRED VOTE, CRESCENT OPERATING WILL STILL FILE THE CHAPTER 11 CASE AND REQUEST THAT THE BANKRUPTCY COURT CONFIRM THE CRESCENT OPERATING BANKRUPTCY PLAN UNDER THE PROVISION OF THE BANKRUPTCY CODE WHICH IS COMMONLY REFERRED TO AS THE "CRAMDOWN PROVISION." THIS PROVISION WOULD PERMIT CONFIRMATION OF THE CRESCENT OPERATING BANKRUPTCY PLAN IF THE COURT FINDS THAT THE CRESCENT OPERATING BANKRUPTCY PLAN DOES NOT DISCRIMINATE UNFAIRLY AGAINST, AND IS FAIR AND EQUITABLE TO, CRESCENT OPERATING'S STOCKHOLDERS. THE CRESCENT OPERATING BANKRUPTCY PLAN PROVIDES THAT, IF THE CRESCENT OPERATING BANKRUPTCY PLAN IS NOT ACCEPTED BY THE REQUIRED VOTE OF THE CRESCENT OPERATING STOCKHOLDERS, AND IF THE CRESCENT OPERATING BANKRUPTCY PLAN IS CONFIRMED BY THE BANKRUPTCY COURT PURSUANT TO THE "CRAMDOWN PROVISION," THEN THE STOCKHOLDERS OF CRESCENT OPERATING WILL NOT RECEIVE ANY COMMON SHARES OF CRESCENT REAL ESTATE.

THIS PROXY STATEMENT/PROSPECTUS GIVES YOU DETAILED INFORMATION ABOUT THE PROPOSED CRESCENT OPERATING BANKRUPTCY PLAN. YOU ARE ENCOURAGED TO READ THIS PROXY STATEMENT/PROSPECTUS CAREFULLY. IN PARTICULAR, YOU SHOULD READ THE "RISK FACTORS" SECTION BEGINNING ON PAGE 23 FOR A DESCRIPTION OF THE VARIOUS RISKS YOU SHOULD CONSIDER IN EVALUATING THE PROPOSED CRESCENT OPERATING BANKRUPTCY PLAN.

ON FEBRUARY 14, 2002, CRESCENT OPERATING AND CERTAIN OF ITS AFFILIATED ENTITIES EXECUTED THE SETTLEMENT AGREEMENT, WHICH HAS SINCE BEEN AMENDED AND WHICH IS ATTACHED TO THIS PROXY STATEMENT/PROSPECTUS AS ANNEX B. CONTEMPORANEOUSLY WITH EXECUTION OF THE SETTLEMENT AGREEMENT, CRESCENT OPERATING

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AND CRESCENT REAL ESTATE EXCHANGED MUTUAL RELEASES. IN PERTINENT PART, CRESCENT OPERATING RELEASED ANY AND ALL CLAIMS THAT IT MIGHT HAVE AGAINST CRESCENT REAL ESTATE AND CERTAIN AFFILIATES ARISING AT ANY TIME PRIOR TO EXECUTION OF THE SETTLEMENT AGREEMENT.

PRIOR TO ENTERING INTO THE SETTLEMENT AGREEMENT, CRESCENT OPERATING, ANALYZED WHETHER IT HAD CLAIMS AGAINST CRESCENT REAL ESTATE THAT SHOULD BE PURSUED AS AN ALTERNATIVE TO THE PROPOSED SETTLEMENT AGREEMENT. CRESCENT OPERATING CONSULTED ITS COUNSEL WHO REVIEWED, AMONG OTHER MATTERS, THE ORIGIN OF CRESCENT OPERATING'S INDEBTEDNESS TO CRESCENT REAL ESTATE AND THE BUSINESS RELATIONSHIP BETWEEN CRESCENT OPERATING AND CRESCENT REAL ESTATE THAT BEGAN IN 1997 WHEN THE SHARES OF CRESCENT OPERATING COMMON STOCK WERE DISTRIBUTED TO CRESCENT REAL ESTATE SHAREHOLDERS. CRESCENT OPERATING INDEPENDENTLY EVALUATED WHETHER THE BENEFIT TO CRESCENT OPERATING CREDITORS AND STOCKHOLDERS IN CONSUMMATING THE SETTLEMENT AGREEMENT OUTWEIGHED THE BENEFIT THAT MIGHT BE OBTAINED FROM NOT ENTERING INTO THE PROPOSED SETTLEMENT AGREEMENT AND INSTEAD PURSUING CLAIMS AGAINST CRESCENT REAL ESTATE. IN MAKING THIS EVALUATION, CRESCENT OPERATING TOOK INTO CONSIDERATION THE RELATIVE CERTAINTY OF ITS CREDITORS AND STOCKHOLDERS REALIZING THE BENEFITS PROVIDED FOR IN THE SETTLEMENT AGREEMENT AND THE RELATIVE UNCERTAINTY OF RECOVERY IN, AS WELL AS THE COSTS AND DELAY ASSOCIATED WITH, PROSECUTING ANY CLAIMS, AND PARTICULARLY CLAIMS OF UNCERTAIN MERIT.

BASED UPON THE TOTALITY OF THE CIRCUMSTANCES, CRESCENT OPERATING MADE THE INDEPENDENT JUDGMENT THAT THE BEST INTERESTS OF ITS CREDITORS AND STOCKHOLDERS WOULD BE SERVED BY ENTERING INTO THE SETTLEMENT AGREEMENT. CRESCENT OPERATING CONCLUDED THAT THE BENEFITS TO ITS CREDITORS AND STOCKHOLDERS THAT COULD BE REALIZED THROUGH THE SETTLEMENT AGREEMENT OUTWEIGHED THE COST TO CRESCENT OPERATING OF GRANTING THE RELEASES TO CRESCENT REAL ESTATE.

THE SETTLEMENT AGREEMENT AND THE MUTUAL RELEASES

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EXECUTED IN CONNECTION WITH THE SETTLEMENT AGREEMENT, INCLUDING CRESCENT OPERATING'S RELEASE OF ALL CLAIMS IT MAY HAVE AGAINST CRESCENT REAL ESTATE, ARE ENFORCEABLE WHETHER OR NOT THE BANKRUPTCY PLAN IS APPROVED BY CRESCENT OPERATING'S STOCKHOLDERS AND WHETHER OR NOT THE BANKRUPTCY PLAN IS CONFIRMED BY THE BANKRUPTCY COURT. THE SETTLEMENT AGREEMENT ALSO PROVIDES THAT CRESCENT OPERATING AND CRESCENT REAL ESTATE AND THE DIRECTORS OR TRUST MANAGERS, OFFICERS, AGENTS AND EMPLOYEES OF EACH WILL BE RELEASED FROM ALL LIABILITIES AND CLAIMS ARISING PRIOR TO THE EFFECTIVE DATE OF THE BANKRUPTCY PLAN.

IF THE BANKRUPTCY PLAN IS ACCEPTED BY THE STOCKHOLDERS AND CONFIRMED BY THE BANKRUPTCY COURT, THEN, ON THE EFFECTIVE DATE OF THE CRESCENT OPERATING BANKRUPTCY PLAN, EACH STOCKHOLDER OF CRESCENT OPERATING WHO IS A MEMBER OF A CLASS THAT VOTES TO ACCEPT THE BANKRUPTCY PLAN OR WHO RECEIVES A DISTRIBUTION UNDER THE BANKRUPTCY PLAN, WILL BE DEEMED TO UNCONDITIONALLY RELEASE CRESCENT OPERATING AND CRESCENT REAL ESTATE AND ALL CURRENT AND FORMER OFFICERS AND DIRECTORS OR TRUST MANAGERS OF CRESCENT OPERATING AND CRESCENT REAL ESTATE FROM ALL CLAIMS AND LIABILITIES, EXCEPT FOR PERFORMANCE OR NONPERFORMANCE UNDER THE SETTLEMENT AGREEMENT OR THE BANKRUPTCY PLAN AND EXCEPT FOR ANY ACTION OR OMISSION THAT CONSTITUTES ACTUAL FRAUD OR CRIMINAL BEHAVIOR.

THE RELEASE OF CRESCENT OPERATING STOCKHOLDER CLAIMS WILL NOT APPLY IF THE HOLDERS OF THE CRESCENT OPERATING COMMON STOCK, VOTING AS A CLASS, VOTE AGAINST THE BANKRUPTCY PLAN. IN ADDITION, THE RELEASE OF CRESCENT OPERATING STOCKHOLDER CLAIMS WILL NOT APPLY TO THE CLAIMS, IF ANY, OF A PERSON WHO SOLD ITS CRESCENT OPERATING STOCK BEFORE THE RECORD DATE FOR THE VOTE, OR WHO EITHER VOTED AGAINST THE BANKRUPTCY PLAN OR DID NOT VOTE AND THEREAFTER EITHER DID NOT

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RECEIVE OR REFUSED TO ACCEPT A DISTRIBUTION OF CRESCENT REAL ESTATE COMMON SHARES. THE RELEASE OF CRESCENT OPERATING STOCKHOLDER CLAIMS WILL APPLY TO CRESCENT OPERATING STOCKHOLDERS ONLY IN THEIR CAPACITY AS CRESCENT OPERATING STOCKHOLDERS, AND WILL NOT AFFECT THEIR RIGHTS AS HOLDERS OF CRESCENT REAL ESTATE COMMON SHARES.

THIS RELEASE WILL BE SUBJECT TO THE EFFECT OF SECTION 29 OF THE SECURITIES EXCHANGE ACT OF 1934, WHICH PROVIDES THAT ANY AGREEMENT BINDING ANY PERSON TO WAIVE COMPLIANCE WITH THE EXCHANGE ACT IS VOID. YOU SHOULD BE AWARE THAT IT IS THE POSITION OF THE SECURITIES AND EXCHANGE COMMISSION THAT THE RELEASE WILL NOT BE EFFECTIVE WITH RESPECT TO CERTAIN CLAIMS ARISING UNDER FEDERAL SECURITIES LAWS. IN ADDITION, IT IS THE POSITION OF THE SECURITIES AND EXCHANGE COMMISSION THAT THE RELEASE OF AFFILIATES OF CRESCENT OPERATING AND THE CURRENT AND FORMER OFFICERS AND DIRECTORS OR TRUST MANAGERS OF CRESCENT OPERATING AND CRESCENT REAL ESTATE VIOLATES SECTION 524(E) OF THE BANKRUPTCY CODE UNLESS SEPARATE CONSIDERATION IS PROVIDED BY THESE PARTIES OR THE RELEASE IS VOLUNTARY.

EFFECTIVE OCTOBER 1, 2002, CRESCENT OPERATING AND CRESCENT REAL ESTATE AMENDED THE SETTLEMENT AGREEMENT. THE AMENDMENT PROVIDES FOR, AMONG OTHER THINGS, A MINIMUM VALUE OF CRESCENT REAL ESTATE COMMON SHARES TO BE ISSUED IN CONNECTION WITH THE BANKRUPTCY PLAN IF THE BANKRUPTCY PLAN IS ACCEPTED BY THE REQUISITE VOTE OF CRESCENT OPERATING STOCKHOLDERS AND CONFIRMED BY THE BANKRUPTCY COURT.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE CRESCENT OPERATING BANKRUPTCY PLAN, PASSED ON THE MERITS OR FAIRNESS OF THE CRESCENT OPERATING BANKRUPTCY PLAN OR PASSED ON THE ADEQUACY OR ACCURACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS PROXY STATEMENT/PROSPECTUS HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT WITH RESPECT TO ADEQUACY OF INFORMATION. HOWEVER, IF THE CRESCENT OPERATING BANKRUPTCY PLAN IS ACCEPTED BY THE REQUIRED VOTE, CRESCENT OPERATING WILL SEEK BANKRUPTCY COURT APPROVAL OF THIS PROXY STATEMENT/PROSPECTUS AS PART OF THE ORDER CONFIRMING THE CRESCENT OPERATING BANKRUPTCY PLAN.

THE DELIVERY OF THIS PROXY STATEMENT/PROSPECTUS SHALL NOT UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN OR ANY ATTACHMENTS

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HERETO OR IN THE AFFAIRS OF CRESCENT REAL ESTATE, CRESCENT OPERATING, OR ANY OF THEIR SUBSIDIARIES SINCE THE DATE HEREOF.

PRIOR TO VOTING, STOCKHOLDERS ARE ENCOURAGED TO READ AND CONSIDER CAREFULLY THIS ENTIRE PROXY STATEMENT/PROSPECTUS INCLUDING THE BANKRUPTCY PLAN OF REORGANIZATION ATTACHED HERETO AS ANNEX A AND THE MATTERS DESCRIBED IN THIS PROXY STATEMENT/PROSPECTUS.

IN MAKING A DECISION IN CONNECTION WITH THE CRESCENT OPERATING BANKRUPTCY PLAN, STOCKHOLDERS MUST RELY ON THEIR OWN EXAMINATION OF CRESCENT OPERATING AND CRESCENT REAL ESTATE AND THE TERMS OF THE CRESCENT OPERATING BANKRUPTCY PLAN, INCLUDING THE MERITS AND RISKS INVOLVED. STOCKHOLDERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS PROXY STATEMENT/PROSPECTUS AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH STOCKHOLDER SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS WITH RESPECT TO ANY SUCH

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MATTERS CONCERNING THIS PROXY STATEMENT/PROSPECTUS, THE CRESCENT OPERATING BANKRUPTCY PLAN OR THE TRANSACTIONS CONTEMPLATED THEREBY.

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QUESTIONS AND ANSWERS ABOUT THE CRESCENT OPERATING BANKRUPTCY PLAN AND THE SPECIAL MEETING

Unless the context otherwise requires, the terms Crescent Operating and Crescent Real Estate include the subsidiaries of each and, in the case of Crescent Real Estate, includes Crescent Real Estate Equities Limited Partnership, or Crescent Partnership. Unless the context otherwise requires, "bankruptcy plan" and "Plan of Reorganization" both refer to the Crescent Operating bankruptcy plan that is described in this proxy statement/prospectus. The Plan of Reorganization is attached to this proxy statement/prospectus as Annex A and is incorporated by reference to this proxy statement/prospectus. Unless the context otherwise requires, "Settlement Agreement" refers to the Settlement Agreement executed on February 14, 2002, as amended by the First Amendment to Settlement Agreement executed effective October 1, 2002. The Settlement Agreement and the First Amendment to Settlement Agreement are attached to this proxy statement/prospectus as Annex B and are incorporated by reference to this proxy statement/prospectus.

The Crescent Operating Bankruptcy Plan

Q. WHAT AM I VOTING ON?

A. You are voting on a proposal to accept a bankruptcy plan that will result in the orderly termination of Crescent Operating's business and could result in your receiving Crescent Real Estate common shares.

Q. WHY IS CRESCENT OPERATING PROPOSING THE BANKRUPTCY PLAN?

A. Crescent Operating is proposing the bankruptcy plan to effect an orderly termination of its business. Substantially all of Crescent Operating's assets are or were encumbered by liens in favor of Crescent Real Estate. Crescent Operating is in default in its obligations to Crescent Real Estate. The value of Crescent Operating's assets was, and continues to be, insufficient to satisfy the secured claims of Crescent Real Estate. On February 14, 2002, Crescent Operating entered into the original Settlement Agreement with Crescent Real Estate and transferred many of the encumbered assets to Crescent Real Estate in partial satisfaction of its claims. The Settlement Agreement requires the filing of a prepackaged bankruptcy plan for Crescent Operating. If the bankruptcy plan is confirmed, the Settlement Agreement obligates Crescent Real Estate to provide Crescent Operating with funds to cover budgeted expenses and pay in full or otherwise resolve the claims of those creditors of Crescent Operating identified in the original Settlement Agreement and gives Crescent Operating stockholders the opportunity to receive Crescent Real Estate common shares.

Q. WHY IS THE SOLE DIRECTOR OF CRESCENT OPERATING RECOMMENDING THAT I VOTE FOR THE CRESCENT OPERATING BANKRUPTCY PLAN?

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- A. Crescent Operating's sole director is recommending that you vote for the Crescent Operating bankruptcy plan because he concluded that the bankruptcy plan, which provides for payments to Crescent Operating's creditors as well as the opportunity for Crescent Operating stockholders to receive Crescent Real Estate common shares with a value that is expected to be between \$0.20 to \$0.50 per share, but will not be less than \$0.20 per share, of Crescent Operating common stock,

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was the best available alternative for Crescent Operating, its creditors and stockholders.

After Crescent Real Estate terminated the asset purchase agreement and the securities purchase agreement described below under "The Reorganization Transactions - Events Leading to the Reorganization Transactions," the sole director, working with Crescent Operating's counsel, analyzed Crescent Operating's alternatives. These alternatives included the following:

- exploring the possibility of obtaining additional funds sufficient to satisfy its obligations and continue its ongoing operations;
- liquidating Crescent Operating under Chapter 7 of the Bankruptcy Code;
- instigating litigation requesting that a court set aside Crescent Real Estate's liens or recharacterize the Crescent Real Estate agreements as equity infusions rather than loans; and
- not settling its claims with Crescent Real Estate and filing for bankruptcy to avoid a foreclosure by Crescent Real Estate.

After analyzing these alternatives, the sole director concluded that the bankruptcy plan provided the best alternative with regard to the amount and the likelihood of recovery for the creditors and stockholders of Crescent Operating. Before finalizing his evaluation, however, Crescent Operating's sole director consulted with legal and financial advisors and also obtained an opinion stating that the aggregate consideration to be received by Crescent Operating and its stockholders, taken as a whole, in connection with the transactions contemplated by the bankruptcy plan and the Settlement Agreement is fair to the public stockholders of Crescent Operating from a financial point of view, assuming a distribution of Crescent Real Estate common shares with a value of \$0.32 to \$0.50. However, this opinion maintains that it would not necessarily change if Crescent Real Estate were to advance additional funds, as Crescent Real Estate agreed to do in the October 2002 amendment to the Settlement Agreement and as described below in "The Reorganization Transactions - Summary of the Reorganization Transactions - Payment by Crescent Real Estate of Crescent Operating Claims and Expenses," that reduce the value of Crescent Real Estate common shares to below \$0.32. See "The Reorganization Transactions - Analysis of Alternatives" for a more detailed description of the analyses performed on behalf of Crescent Operating by the sole director and third-party consultants.

Crescent Operating's sole director performed these analyses and negotiated the bankruptcy plan and Settlement Agreement independently from the other four members of the Crescent Operating Board of Directors, each of whom also serves as a trust manager of Crescent Real

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Estate. In order to avoid conflicts of interest, none of these four directors participated in the negotiations on behalf of Crescent Operating, and all four resigned as directors of Crescent Operating on February 13, 2002. One of these directors, John C. Goff, participated in the initial structuring of the proposed transactions, but did not participate in any negotiations due to potential conflicts of interest arising primarily from his position as Chief Executive Officer and a trust manager of Crescent Real Estate, as more fully described in "The Reorganization Transactions - Interests of Certain Persons in the Reorganization Transactions." As a result of these analyses, the sole director concluded that the Settlement Agreement and the pre-packaged bankruptcy were the best available alternatives for the Crescent Operating creditors and stockholders and the alternatives most likely to maximize stockholder value.

Q. WHAT IS THE VOTE REQUIRED TO ACCEPT THE CRESCENT OPERATING BANKRUPTCY PLAN?

A. The affirmative vote of two-thirds of the votes cast in person or by proxy is required to accept the Crescent Operating bankruptcy plan. In addition, at least a majority of the outstanding Crescent Operating common stock must be represented at the special meeting to constitute a quorum. Holders of Crescent Operating common stock are entitled to one vote for each share of Crescent Operating common stock they hold.

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Q. WHAT HAPPENS IF THE CRESCENT OPERATING STOCKHOLDERS VOTE FOR ACCEPTANCE OF THE CRESCENT OPERATING BANKRUPTCY PLAN?

A. If the Crescent Operating stockholders cast enough votes to accept the Crescent Operating bankruptcy plan, Crescent Operating will file a bankruptcy petition under the Bankruptcy Code and will submit the bankruptcy plan to the bankruptcy court for confirmation. If the bankruptcy court confirms the bankruptcy plan, you will cease to be a stockholder of Crescent Operating on the date the bankruptcy plan becomes effective. You will receive common shares of Crescent Real Estate subject to the conditions discussed below in the answer to the question "Are there conditions to my receipt of Crescent Real Estate common shares?"

If the holders of Crescent Operating common stock, voting as a class, vote for acceptance of the bankruptcy plan, each stockholder will be deemed to unconditionally release Crescent Operating and Crescent Real Estate and all current and former officers and directors or trust managers of Crescent Operating and Crescent Real Estate from all claims and liabilities, except for performance or nonperformance under the Settlement Agreement and the bankruptcy plan and except for any action or omission that constitutes actual fraud or criminal behavior. The Settlement Agreement and the mutual releases executed in connection with the Settlement Agreement, including Crescent Operating's release of all claims it may have against Crescent Real Estate, are enforceable whether or not the bankruptcy plan is approved by Crescent Operating's stockholders and whether or not the bankruptcy plan is confirmed by the bankruptcy court. If the Crescent Operating stockholders vote to accept the bankruptcy plan, but an individual stockholder votes against the bankruptcy plan, abstains or does not vote, and either does not receive or refuses to accept any distribution under the bankruptcy plan, then that stockholder will not be deemed to have released any claims against

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Crescent Real Estate or its current or former officers and trust managers or Crescent Operating's current or former officers and directors. The release of Crescent Operating stockholder claims will apply to Crescent Operating stockholders only in their capacity as Crescent Operating stockholders and will not affect their rights as holders of Crescent Real Estate common shares.

In substance, section 524(e) of the Bankruptcy Code provides that the release of third party claims against a debtor such as Crescent Operating does not release any other person. In addition to the release of Crescent Operating, the bankruptcy plan includes releases of Crescent Real Estate and all current and former officers and directors or trust managers of Crescent Operating or Crescent Real Estate. It is the position of the Securities and Exchange Commission that these additional releases violate section 524(e) unless separate consideration is provided by the specific parties being released or the releases are voluntary. Crescent Operating believes the releases contemplated by the bankruptcy plan comply with section 524(e) of the Bankruptcy Code and applicable law, both because Crescent Real Estate is paying substantial consideration to Crescent Operating and its stockholders to obtain the releases provided under the bankruptcy plan and because the releases are voluntary.

In addition, as discussed in this proxy statement, Crescent Real Estate is providing sufficient funds both to pay in full or otherwise resolve the claims of those creditors of Crescent Operating identified in the original Settlement Agreement and to cover budgeted expenses of Crescent Operating. In addition, Crescent Real Estate is providing a distribution to Crescent Operating stockholders of Crescent Real Estate common shares if the stockholders vote to accept the bankruptcy plan and the bankruptcy court confirms the plan. Accordingly, the consideration is being provided either directly by the persons who receive the benefit of the releases provided in the bankruptcy plan or on their behalf. Whether this consideration for the releases is sufficient is an issue of fact that the bankruptcy court has authority to determine. If the bankruptcy court

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concludes that the releases in the bankruptcy plan violate section 524(e) of the Bankruptcy Code, the bankruptcy court may refuse to confirm the bankruptcy plan as written. In that event, Crescent Real Estate does not have an obligation to fund payments to Crescent Operating's creditors or to make a distribution to stockholders of Crescent Operating even though the stockholders cast enough votes to accept the Crescent Operating bankruptcy plan proposed to them.

Crescent Operating also believes that the release by any stockholder who accepts the bankruptcy plan is voluntary. Any Crescent Operating stockholder who does not wish to provide the release may retain full rights to pursue claims against Crescent Real Estate, Crescent Operating and their current and former officers and directors or trust managers by voting against the bankruptcy plan, abstaining or not voting, and either not receiving or refusing to accept any distribution under the bankruptcy plan.

Q. IS THE TOTAL VALUE OF THE CRESCENT REAL ESTATE COMMON SHARES BEING OFFERED TO CRESCENT OPERATING STOCKHOLDERS IN THE CRESCENT OPERATING BANKRUPTCY PLAN SUBJECT TO ADJUSTMENT?

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A. Yes. The total value of the Crescent Real Estate common shares offered to Crescent Operating stockholders will depend on the dollar amount of claims and expenses paid by Crescent Real Estate in connection with the Crescent Operating bankruptcy and the reorganization transactions, but will not be less than approximately \$2.16 million, or \$0.20 per share of Crescent Operating common stock.

Q. HOW WILL CRESCENT REAL ESTATE AND CRESCENT OPERATING DETERMINE THE TOTAL VALUE OF THE CRESCENT REAL ESTATE COMMON SHARES BEING OFFERED TO CRESCENT OPERATING STOCKHOLDERS PURSUANT TO THE CRESCENT OPERATING BANKRUPTCY PLAN?

A. The total value of the Crescent Real Estate common shares offered to Crescent Operating stockholders will equal the greater of:

- approximately \$2.16 million; or
- \$16.0 million minus the total amount of payments made by Crescent Real Estate for claims and expenses relating to the Crescent Operating bankruptcy and the reorganization transactions, including expenses of Crescent Real Estate but excluding payments in satisfaction of the Bank of America claim.

As of December 31, 2002, Crescent Real Estate had incurred approximately \$8.5 million in claims and expenses in connection with the Crescent Operating bankruptcy and the reorganization transactions and expects to incur an aggregate of \$10.6 million to \$13.8 million in total claims and expenses.

Q. HOW MUCH DO CRESCENT OPERATING AND CRESCENT REAL ESTATE EXPECT CRESCENT REAL ESTATE TO PAY FOR CLAIMS AND EXPENSES, AND WHAT IS THE TOTAL VALUE OF THE CRESCENT REAL ESTATE COMMON SHARES THAT CRESCENT OPERATING AND CRESCENT REAL ESTATE BELIEVE WILL BE ISSUED TO CRESCENT OPERATING STOCKHOLDERS?

A. Crescent Operating and Crescent Real Estate currently estimate that Crescent Real Estate will advance funds to pay in full or otherwise resolve total claims and expenses of between \$10.6 million and \$13.8 million. Accordingly, the total value of the Crescent Real Estate common shares issued to the Crescent Operating stockholders is expected to be between \$5.4 million and

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\$2.16 million, or \$0.50 to \$0.20 per share of Crescent Operating common stock. If a material variance in this estimated range of aggregate claims and expenses occurs after the date that Crescent Operating mails this proxy statement/prospectus to its stockholders, then Crescent Operating will issue a press release and file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing the material variance. Regardless of the actual amount of claims and expenses, in no event will the stockholders of Crescent Operating have the opportunity to reconsider approval of the bankruptcy plan. As of December 31, 2002, Crescent Real Estate had incurred approximately \$8.5 million in claims and expenses.

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- Q. CAN THE TOTAL CLAIMS AND EXPENSES THAT CRESCENT REAL ESTATE PAYS IN CONNECTION WITH THE CRESCENT OPERATING BANKRUPTCY AND THE REORGANIZATION TRANSACTIONS REDUCE THE VALUE OF THE DISTRIBUTION OF CRESCENT REAL ESTATE COMMON SHARES TO THE CRESCENT OPERATING STOCKHOLDERS TO LESS THAN \$0.20 PER SHARE?
- A. No. Regardless of the total amount of claims and expenses that are paid by Crescent Real Estate in connection with the bankruptcy plan and the reorganization transactions, if the bankruptcy plan is accepted by the requisite vote of the Crescent Operating stockholders and is confirmed by the bankruptcy court, then Crescent Operating stockholders will receive common shares of Crescent Real Estate with a value of at least \$2.16 million, or \$0.20 per share of Crescent Operating common stock.
- Q. HOW IS THE VALUE OF THE CRESCENT REAL ESTATE COMMON SHARES CALCULATED?
- A. The value of the Crescent Real Estate common shares to be issued pursuant to the bankruptcy plan is computed based on the average of the closing prices of the Crescent Real Estate common shares on the New York Stock Exchange, or the NYSE, for the ten trading days immediately preceding the date of confirmation of the Crescent Operating bankruptcy plan.
- Q. ARE THERE CONDITIONS TO MY RECEIPT OF CRESCENT REAL ESTATE COMMON SHARES?
- A. Yes. There are three principal conditions:
- Crescent Operating stockholders must accept the Crescent Operating bankruptcy plan by the requisite vote (2/3 or more of the number of votes cast at the meeting in person or by proxy);
 - the bankruptcy court must confirm the Crescent Operating bankruptcy plan, including the releases incorporated in the bankruptcy plan; and
 - you must be a Crescent Operating stockholder on the confirmation date.
- Q. WHAT SHOULD I KNOW ABOUT CRESCENT REAL ESTATE AND THE CRESCENT REAL ESTATE COMMON SHARES?
- A. Crescent Real Estate is a real estate investment trust. This proxy statement/prospectus contains a description of Crescent Real Estate and its business, as well as its financial statements. You should carefully review this proxy statement/prospectus, including the annexes hereto, before casting your vote. An investment in Crescent Real Estate common shares involves risks, as described in "Risk Factors - Risks Associated with an Investment in Crescent Real Estate Common Shares". The common shares of Crescent Real Estate trade publicly on the NYSE under the symbol "CEI."
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- Q. WHAT HAPPENS IF THE CRESCENT OPERATING STOCKHOLDERS VOTE AGAINST ACCEPTANCE OF THE CRESCENT OPERATING BANKRUPTCY PLAN?
- A. If a sufficient number of Crescent Operating stockholders vote against the Crescent Operating bankruptcy plan, such that not enough votes are cast to accept the bankruptcy plan, the bankruptcy plan provides that

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none of the stockholders of Crescent Operating will receive Crescent Real Estate common shares under the plan. Crescent Operating will still file a bankruptcy petition under the Bankruptcy Code and seek to have the bankruptcy plan, as currently proposed to the stockholders of Crescent Operating, confirmed by the bankruptcy court pursuant to the "cramdown" provision of the Bankruptcy Code. If the bankruptcy court confirms the plan pursuant to the "cramdown" provision, Crescent Operating stockholders will not receive common shares of Crescent Real Estate but will still cease to be stockholders of Crescent Operating on the date the bankruptcy plan becomes effective. In this circumstance, the stockholder releases described in the answer to the question "What happens if the Crescent Operating stockholders vote FOR acceptance of the Crescent Operating bankruptcy plan?" will not take effect, and the Crescent Operating stockholders will not be deemed to have released any of their direct claims against Crescent Operating or Crescent Real Estate or against the current and former officers and the directors or trust managers of either Crescent Operating or Crescent Real Estate. In addition, each Crescent Operating stockholder would retain the right to seek to enforce a Crescent Operating cause of action against parties other than Crescent Real Estate and the other parties released under the Settlement Agreement. Crescent Operating's pre-bankruptcy release of its claims against Crescent Real Estate, including claims by stockholders seeking to enforce, on behalf of Crescent Operating, a claim of Crescent Operating against Crescent Real Estate, however, will remain in effect.

The bankruptcy court has authority to determine whether Crescent Operating's release of its claims, or the other transactions under the Settlement Agreement, could be avoided or set aside as a fraudulent transfer under either Texas law or section 548 of the Bankruptcy Code. The primary consideration in a fraudulent transfer action is whether the transferor received reasonably equivalent value in exchange for the transfer. In this case, Crescent Operating believes that the payments and other consideration that Crescent Real Estate is providing pursuant to the Settlement Agreement in connection with the bankruptcy plan constitute reasonably equivalent value for the consideration Crescent Operating gave Crescent Real Estate in the Settlement Agreement. Fraudulent transfer claims are typically brought for the benefit of creditors. In this case, Crescent Real Estate agreed, if the bankruptcy plan is confirmed, to pay in full or otherwise resolve the claims of the Crescent Operating creditors that Crescent Operating identified at the time of the execution of the original Settlement Agreement. As a result, these creditors, rather than being harmed by the Settlement Agreement, will benefit from the Settlement Agreement.

If the bankruptcy court refuses to confirm the bankruptcy plan described in this proxy statement, Crescent Operating may seek to have an alternative plan confirmed by the court. In that event, Crescent Operating creditors and stockholders will receive further notice regarding the alternative plan.

- Q. WHAT RIGHTS DO I HAVE IF I OPPOSE THE CRESCENT OPERATING BANKRUPTCY PLAN?
- A. If you oppose the bankruptcy plan, you may vote against it. There are no dissenters' appraisal rights available under applicable state corporate law with respect to the Crescent Operating bankruptcy plan. After the bankruptcy plan is filed with the bankruptcy court, you may hire an attorney to argue your position to the court and you may file

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pleadings with the bankruptcy court

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explaining why you believe the bankruptcy plan should not be confirmed, whether or not the Crescent Operating stockholders approved the bankruptcy plan.

As described previously in "What happens if the Crescent Operating stockholders vote AGAINST acceptance of the Crescent Operating bankruptcy plan?", Crescent Operating will file its bankruptcy petition and seek to have the bankruptcy plan confirmed even if the requisite numbers of Crescent Operating stockholders do not vote to accept the bankruptcy plan. Crescent Operating believes it will be successful in obtaining confirmation of the bankruptcy plan, even over the stockholders' failure to approve the bankruptcy plan or a stockholder's objection, but it is not a certainty that the court will confirm the bankruptcy plan.

If the Crescent Operating bankruptcy plan is confirmed by the bankruptcy court, all of the stockholders of Crescent Operating will be bound by all of the terms and conditions of the bankruptcy plan. However, Crescent Operating stockholders who sell their shares of Crescent Operating common stock before the voting record date, as well as Crescent Operating stockholders who vote against the bankruptcy plan, abstain from voting or do not vote on the bankruptcy plan, and who do not receive or refuse to accept a distribution under the bankruptcy plan, will not be bound by the releases in the bankruptcy plan. If the class of Crescent Operating stockholders votes against the bankruptcy plan, the Crescent Operating stockholders will not release any direct, or non-derivative, claims against third parties. Each Crescent Operating stockholder would retain the right to assert any direct claims that the stockholder may have against Crescent Operating or Crescent Real Estate, or the officers and directors or trust managers of either entity, including claims alleging violations of applicable state or federal securities laws. In addition, each Crescent Operating stockholder would retain the right to seek to enforce a Crescent Operating cause of action against parties other than Crescent Real Estate and the other parties released under the Settlement Agreement. The Settlement Agreement and the mutual releases executed in connection with the Settlement Agreement, including Crescent Operating's release of all claims it may have against Crescent Real Estate and affiliates arising prior to the execution of the original Settlement Agreement, are enforceable whether or not the bankruptcy plan is approved by Crescent Operating's stockholders and whether or not the bankruptcy plan is confirmed by the bankruptcy court. The bankruptcy court has the authority to determine whether Crescent Operating's release of its claims, or the other transactions under the Settlement Agreement, could be avoided or set aside as a fraudulent transfer under either state law or section 548 of the Bankruptcy Code. The primary consideration in a fraudulent transfer action is whether the transferor received reasonably equivalent value for the transfer. In this case, Crescent Operating believes that the payments and other consideration that Crescent Real Estate is providing pursuant to the Settlement Agreement and in connection with the bankruptcy plan constitute reasonably equivalent value for the consideration Crescent Operating gave Crescent Real Estate in the Settlement Agreement. Fraudulent transfer claims are typically brought for the benefit of creditors. In this case, Crescent Real Estate agreed, if the bankruptcy plan is confirmed, to pay all the claims of the Crescent Operating

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creditors that Crescent Operating identified at the time of the Settlement Agreement. As a result, these creditors, rather than being harmed by the Settlement Agreement, in fact will benefit from the Settlement Agreement.

Q. WAS A FAIRNESS OPINION RENDERED IN CONNECTION WITH THE CRESCENT OPERATING BANKRUPTCY PLAN?

A. Yes. The sole director of Crescent Operating has received and relied upon an opinion from Houlihan Lokey Howard & Zukin Financial Advisors, Inc., an investment-banking firm, dated February 14, 2002, that, subject to and based on the considerations in its opinion, the aggregate consideration to be received by Crescent Operating and its stockholders, taken as a whole, in connection with the transactions

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contemplated by the bankruptcy plan and the Settlement Agreement is fair to the public stockholders of Crescent Operating from a financial point of view, assuming a distribution of Crescent Real Estate common shares with a value of \$0.32 to \$0.50. However, Houlihan Lokey's opinion specifically stated that its opinion would not necessarily change if Crescent Real Estate were to advance additional funds, as Crescent Real Estate agreed to do in the October 2002 amendment to the Settlement Agreement and as described below in "The Reorganization Transactions - Summary of the Reorganization Transactions - Payment by Crescent Real Estate of Crescent Operating Claims and Expenses," that reduce the value of Crescent Real Estate common shares to below \$0.32. The full text of Houlihan Lokey's opinion, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Houlihan Lokey, is attached as Annex C to this proxy statement/prospectus. Crescent Operating urges you to read the Houlihan Lokey opinion in its entirety. See "The Crescent Operating Bankruptcy Plan - Opinion of Crescent Operating's Financial Advisor" for a more detailed description of the opinion and the background of the opinion. In addition, you should read "Risk Factors - Limitations on the scope of Houlihan Lokey's fairness opinion could lead to Crescent Operating stockholders to assign too much importance to the fairness opinion in making their decision on whether to vote to approve the bankruptcy plan" for a discussion of issues and concerns related to the date and the limited scope of Houlihan Lokey's opinion.

Q. WHAT ARE THE FEDERAL INCOME TAX CONSEQUENCES OF THE CRESCENT OPERATING BANKRUPTCY PLAN?

A. The distribution to you of Crescent Real Estate common shares will be treated as a distribution in liquidation of Crescent Operating. You will realize gain or loss based on the difference between your basis in your shares of Crescent Operating common stock and the fair market value of the Crescent Real Estate common shares you receive. In general, if you are not a dealer in securities, you must treat this gain or loss as a long term capital gain or loss if you held your shares of Crescent Operating common stock for more than one year or, otherwise, as a short term capital gain or loss. If you acquired shares of Crescent Operating common stock at different times, the determination of gain or loss and the holding period is made on the facts specific to each share. Your basis in the Crescent Real Estate common shares you will receive will be the fair market value of the Crescent Real Estate common shares at the time of distribution.

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- Q. ARE THERE ANY RISKS IN THE CRESCENT OPERATING BANKRUPTCY PLAN?
- A. Yes. If there are enough votes to accept the Crescent Operating bankruptcy plan, you are expected to receive Crescent Real Estate common shares only if the bankruptcy plan is confirmed and you own shares of Crescent Operating common stock on the date that the Crescent Operating bankruptcy plan is confirmed. The number of Crescent Real Estate common shares that you will receive is subject to reduction depending on the amount of expenses and claims relating to the Crescent Operating bankruptcy plan and reorganization transactions that Crescent Real Estate pays, however, in no event will the Crescent Operating stockholders receive Crescent Real Estate common shares with a value of less than approximately \$2.16 million or \$0.20 per share of Crescent Operating common stock if the bankruptcy plan is accepted by the Crescent Operating stockholders and confirmed by the bankruptcy court. If there are not enough votes of the Crescent Operating stockholders to accept the Crescent Operating bankruptcy plan, Crescent Operating will still seek confirmation of the bankruptcy plan, but the Crescent Operating stockholders will receive no Crescent Real Estate common shares. Other risks relating to the bankruptcy plan, including, but not limited to, the bankruptcy court denying confirmation of the bankruptcy plan and Crescent Real Estate electing not to assume any unidentified liabilities of

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Crescent Operating are described in "Risk Factors - Risks Associated with the Crescent Operating Bankruptcy Plan."

- Q. ARE THERE ANY CONDITIONS TO CONFIRMATION AND IMPLEMENTATION OF THE CRESCENT OPERATING BANKRUPTCY PLAN?
- A. Yes. The Crescent Operating bankruptcy plan provides that, except as expressly waived by Crescent Operating with the consent of Crescent Real Estate, the following are conditions to confirmation and implementation of the Crescent Operating bankruptcy plan:
- the bankruptcy court has signed a confirmation order confirming the Crescent Operating bankruptcy plan, and the clerk of the bankruptcy court has duly entered the confirmation order on the docket for the bankruptcy case in a form and substance that is acceptable to Crescent Operating;
 - the confirmation order has become effective and has not been stayed, modified, reversed or amended; and
 - Crescent Real Estate has received all regulatory approvals and authorizations necessary to create the subsidiary of Crescent Real Estate that will acquire Crescent Operating's entire membership interest in COPI Cold Storage, LLC, and that will distribute its shares to the holders of Crescent Real Estate common shares, other than the holders of Crescent Real Estate common shares distributed to the Crescent Operating stockholders as a result of the Crescent Operating bankruptcy plan.

- Q. WHEN DO YOU EXPECT THE CRESCENT OPERATING BANKRUPTCY PLAN TO BE CONFIRMED BY THE BANKRUPTCY COURT?
- A. Crescent Operating's goal is to have the Crescent Operating bankruptcy plan confirmed as quickly as possible. Crescent Operating currently believes that the Crescent Operating bankruptcy plan will be confirmed

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in the first quarter of 2003.

The Special Meeting

Q. HOW DO I VOTE?

A. After you carefully read this document, you may vote by proxy using any of the following means:

- by indicating on the enclosed proxy card how you want to vote, signing it, dating it and mailing it in the enclosed prepaid return envelope;
- by touchtone telephone from the U.S. and Canada, using the toll-free telephone number on the proxy card; or
- in person at the special meeting, unless you are a "street name" holder without a proxy signed by your broker.

You should indicate your vote now by proxy even if you expect to attend the special meeting and vote in person. Indicating your vote now will not prevent you from later canceling or revoking your vote at any time prior to the vote at the special meeting and will ensure that your shares are voted if you later find you cannot attend the special meeting.

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Q. CAN I CHANGE MY VOTE AFTER I HAVE VOTED BY PROXY?

A. Yes. Unless you hold your shares in "street name" through your broker, you can change your vote prior to the taking of the vote at the special meeting:

- by giving written notice of revocation to the secretary of Crescent Operating;
- only if the prior vote was by written proxy, by properly submitting a duly executed proxy bearing a later date;
- only if the prior vote was by telephone, by casting a subsequent vote by telephone prior to the special meeting; or
- by voting in person at the special meeting.

Only the last vote of a stockholder will be counted. For a more complete description of voting procedures, see "The Special Meeting of Crescent Operating Stockholders - Proxies."

Q. IF MY BROKER HOLDS MY SHARES IN "STREET NAME," WILL MY BROKER VOTE MY SHARES FOR ME?

A. No. Unless you provide instructions to your broker on how to vote your "street name" shares, your broker will be unable to vote them for you. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you wish to change your vote, you must contact your broker.

Q. WHAT IS THE EFFECT OF MY FAILURE TO VOTE?

A. If you sign and send in your proxy card and do not indicate how you want to vote, your shares will be voted in favor of acceptance of the Crescent Operating bankruptcy plan. If you do not return your proxy card, do not vote by telephone, or do not vote in person at the special

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meeting, your shares will not be voted. IF NOT ENOUGH STOCKHOLDERS OF CRESCENT OPERATING VOTE TO ACCEPT THE CRESCENT OPERATING BANKRUPTCY PLAN, THE BANKRUPTCY PLAN PROVIDES THAT NONE OF THE STOCKHOLDERS OF CRESCENT OPERATING WILL RECEIVE CRESCENT REAL ESTATE COMMON SHARES. See "The Special Meeting of Crescent Operating Stockholders - Effect of Abstentions and Broker Non-Votes" for more information regarding the effect of your failure to vote.

Q. DO I NEED TO SEND ANYTHING IN ADDITION TO MY PROXY AT THIS TIME?

A. No. If Crescent Real Estate issues common shares to Crescent Operating stockholders, then after you receive written notice that the Crescent Operating bankruptcy plan has become effective, the disbursement agent will send you a letter and written instructions relating to any information that is required from you to ensure that the stock certificates representing your Crescent Real Estate common shares are issued and delivered to you. You will receive your Crescent Real Estate common shares promptly after the disbursement agent receives the requested information from you.

Q. WHO CAN HELP ANSWER MY QUESTIONS?

A. If you would like additional copies of this document, or have any questions about the Crescent Operating bankruptcy plan, you should contact:

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Crescent Operating, Inc.
Attention: Jeffrey L. Stevens or Kiersten Thompson
777 Main Street, Suite 1240
Fort Worth, Texas 76102
Phone Number: (817) 321-1602

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SUMMARY

This summary highlights selected information presented in this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the Crescent Operating bankruptcy plan to be voted on at the special meeting more fully, you should carefully read this entire proxy statement/prospectus and the documents to which this proxy statement/prospectus refers. See "Where You Can Find More Information." In particular, you should read the documents attached to this proxy statement/prospectus, including the Plan of Reorganization attached as Annex A and the Settlement Agreement attached as Annex B, both of which are incorporated by reference into this proxy statement/prospectus.

THE COMPANIES

CRESCENT OPERATING, INC.
777 Main Street, Suite 1240
Fort Worth Texas 76102
(817) 321-1602

Overview

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Crescent Operating, Inc., a Delaware corporation, was formed on April 1, 1997, by Crescent Real Estate. Effective June 12, 1997, Crescent Real Estate distributed shares of Crescent Operating common stock to shareholders of Crescent Real Estate and limited partners of Crescent Partnership, and, on that date, Crescent Operating became a public company. Crescent Operating was formed to be the lessee and operator of certain assets owned or to be acquired by Crescent Real Estate.

As of December 31, 2001, Crescent Operating, through various subsidiaries and affiliates, had assets and operations consisting of four business segments:

- equipment sales and leasing segment;
- hospitality segment;
- temperature-controlled logistics segment; and
- land development segment.

In February and March 2002, pursuant to the terms of the Settlement Agreement, Crescent Operating transferred to Crescent Real Estate, in lieu of foreclosure, the assets of its hospitality segment, and, pursuant to a strict foreclosure, the interests in its land development segment. As a result, Crescent Operating no longer has operations in these two segments. In addition, on February 6, 2002, Crescent Machinery Company, through which Crescent Operating operates its equipment sales and leasing segment, filed for protection under the federal bankruptcy laws. Crescent Machinery has filed schedules of assets and liabilities in its bankruptcy case. Those schedules indicate that virtually all of Crescent Machinery's assets are subject to lien claims of certain secured lenders. Moreover, the schedules indicate that the collateral securing the claims of these creditors has a value at or below the amount owed to the lenders. In fact, the only unencumbered assets owned by Crescent Machinery are several parcels of real estate that Crescent Machinery estimates to have a fair market value of approximately \$3.0 million and miscellaneous inventory and accounts receivable of undetermined value. The value of the real estate will need to be first used to pay administrative expense claims in the bankruptcy case, after which it might be

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available for distribution to unsecured creditors. There are approximately \$17.0 million of unsecured claims in the Crescent Machinery bankruptcy case. Crescent Operating expects the Crescent Machinery creditors to object to Crescent Operating receiving any distribution unless those creditors are paid in full. Although there can be no assurance as to the outcome of the Crescent Machinery bankruptcy case, Crescent Operating believes the prudent course is to estimate that it would not receive a material distribution in respect of either its unsecured claim in the Crescent Machinery case or in respect of its ownership of 100% of the Crescent Machinery common stock.

As of the date of this proxy statement/prospectus, the only remaining operating assets of Crescent Operating are its 40% interest in AmeriCold Logistics, LLC and its 100% equity interest in Crescent Machinery.

Historical Operations

As of December 31, 2001, Crescent Operating owned the following:

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- The equipment sales and leasing segment, consisting of a 100% interest in Crescent Machinery and its subsidiary, a construction equipment sales, leasing and service company which had as many as 18 locations in seven states. As of September 30, 2002, Crescent Machinery operated nine locations in three states.
- The hospitality segment, consisting of the following assets:
 - Crescent Operating's lessee interests in three upscale business class hotels owned by Crescent Real Estate. The hotels are the Denver Marriott City Center, the Hyatt Regency Albuquerque, and the Renaissance Hotel in Houston, Texas.
 - Lessee interests in three destination resort properties owned by Crescent Real Estate. The properties are the Hyatt Regency Beaver Creek, the Ventana Inn and Spa and the Sonoma Mission Inn and Spa (including the Sonoma Mission Inn Golf and Country Club).
 - Lessee interests in two destination fitness resort and spa properties owned by Crescent Real Estate. The properties are Canyon Ranch-Tucson and Canyon Ranch-Lenox.
 - A 5% economic interest in CRL Investments, Inc., or CRL, which has an investment in the Canyon Ranch Day Spa in the Venetian Hotel in Las Vegas, Nevada and participates in the future use of the "Canyon Ranch" name. Crescent Real Estate owned the remaining 95% economic interest.

Crescent Operating's lessee interests in these eight properties and its interest in CRL are referred to as the hotel operations.

- The temperature-controlled logistics segment, consisting of a 40% interest in the operations of AmeriCold Logistics, LLC, which operates 100 refrigerated storage properties with an aggregate storage capacity of approximately 525 million cubic feet. Crescent Real Estate has a 40% interest in AmeriCold Corporation, which owned 89 of the 100 properties.
- The land development segment, consisting of the following assets:

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 - A 4.65% economic interest in Desert Mountain, a master planned, luxury residential and recreational community in northern Scottsdale, Arizona. Crescent Real Estate owned an 88.35% economic interest in Desert Mountain.
 - A 52.5% general partner interest in The Woodlands Operating Company, L.P.
 - A 2.625% economic interest in The Woodlands Land Development Company L.P. Crescent Real Estate owned a 49.875% economic interest in this entity.

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- A 60% general partner interest in COPI Colorado, LP, a company that has a 10% economic interest in Crescent Resort Development, Inc., or CRDI, formerly Crescent Development Management Corp. Crescent Real Estate owned the remaining 90% economic interest in CRDI.

These interests are referred to as the land development interests.

Structure

The following chart depicts the structure of Crescent Operating's ownership of assets as of September 30, 2002. As a result of the transactions described in this section, the entities in Crescent Operating's hospitality and land development segments no longer hold any assets and, therefore, do not appear on this chart. Subsequent to the consummation of the bankruptcy plan and the reorganization transactions, Crescent Operating and its subsidiaries will be dissolved.

[ORGANIZATIONAL CHART]

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CRESCENT REAL ESTATE EQUITIES COMPANY
777 Main Street, Suite 2100
Fort Worth, Texas 76102
(817) 321-2100

Overview

Crescent Real Estate Equities Company was organized in 1994 and operates as a real estate investment trust, or REIT, for federal income tax purposes. Together with its subsidiaries, Crescent Real Estate provides management, leasing and development services for some of its properties.

Crescent Real Estate conducts all of its business through Crescent Partnership and its other subsidiaries. Crescent Real Estate is structured to facilitate and maintain the qualification of Crescent Real Estate as a REIT. This structure permits persons contributing properties, or interests in properties, to Crescent Real Estate to defer some or all of the tax liability that they otherwise might have incurred in connection with the sale of assets to Crescent Real Estate.

In February 2002, pursuant to the terms of the Settlement Agreement, Crescent Real Estate acquired from Crescent Operating, through transfers in lieu of foreclosure, the interests in Crescent Operating's hospitality segment and, pursuant to a strict foreclosure, the assets of Crescent Operating's land development segment. Crescent Real Estate holds these assets and interests through two newly organized corporations and one newly organized limited liability company that are wholly owned subsidiaries of Crescent Real Estate, or taxable REIT subsidiaries. Crescent Real Estate included these assets in its resort/hotel and residential development segments beginning on the dates of the transfers.

Historical Operations

As of September 30, 2002, Crescent Real Estate's assets and operations were composed of four major investment segments:

- office segment;

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- resort/hotel segment;
- residential development segment; and
- temperature-controlled logistics segment.

Within these segments, Crescent Real Estate owned, directly or indirectly, the following real estate, referred to as the Crescent Real Estate properties, as of September 30, 2002.

- Office segment consisted of 73 office properties located in 25 metropolitan submarkets in six states with an aggregate of approximately 28.5 million net rentable square feet.
- Resort/hotel segment consisted of five destination resort properties with a total of 1,036 rooms/guest nights and four upscale business-class hotels with a total of 1,771 rooms, or the Crescent Real Estate hotel properties.

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- Residential development segment consisted of Crescent Real Estate's ownership of real estate mortgages and voting and non-voting common stock representing interests ranging from 94% to 100% in five unconsolidated residential development corporations, which in turn, through joint venture or partnership arrangements, owned 21 upscale residential development properties. These are referred to as the Crescent Real Estate residential development properties.
- Temperature-controlled logistics segment consisted of Crescent Real Estate's 40% interest in a general partnership referred to as the temperature-controlled logistics partnership, which owns all of the common stock, representing substantially all of the economic interest, of AmeriCold Corporation, a REIT, which directly or indirectly owned 88 temperature-controlled logistics properties, or the Crescent Real Estate temperature-controlled logistics properties, with an aggregate of approximately 441.5 million cubic feet, or 17.5 million square feet, of warehouse space.
- Other Crescent Real Estate properties consisted of 9 behavioral healthcare properties.

AGREEMENT FOR TRANSFER OF CRESCENT OPERATING ASSETS TO CRESCENT REAL ESTATE

On June 28, 2001, Crescent Operating and Crescent Real Estate entered into an asset and stock purchase agreement in which Crescent Real Estate agreed to acquire the hotel operations, the land development interests and other assets in exchange for \$78.4 million. Crescent Real Estate also entered into an agreement to make a \$10.0 million investment in Crescent Machinery, which, along with capital from a third-party investment firm, was expected to put Crescent Machinery on solid financial footing.

Following the date of the agreements, the results of operations for the hotel operations and the land development interests declined, due in part to the slowdown in the economy after September 11. In addition, Crescent Machinery's results of operations suffered because of the economic environment and the overall reduction in national construction levels that has affected the

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equipment rental and sale business, particularly post September 11. As a result, Crescent Real Estate believes that a significant additional investment would have been necessary to adequately capitalize Crescent Machinery and satisfy concerns of Crescent Machinery's lenders.

On January 23, 2002, Crescent Real Estate terminated the purchase agreement pursuant to which Crescent Real Estate would have acquired the Crescent Operating hotel operations, the Crescent Operating land development interests and other assets. On February 4, 2002, Crescent Real Estate terminated the agreement relating to its planned investment in Crescent Machinery.

On February 6, 2002, Crescent Machinery filed for protection under the federal bankruptcy laws.

On February 12 and February 13, 2002, Crescent Real Estate delivered default notices to Crescent Operating relating to approximately \$49.0 million of unpaid rent and approximately \$76.2 million of principal and accrued interest due to Crescent Real Estate under certain secured loans.

SETTLEMENT AGREEMENT

On February 14, 2002, Crescent Operating and Crescent Real Estate entered into the Settlement Agreement, which was amended effective October 1, 2002. The amendment provides for, among other things, a minimum value of Crescent Real Estate common shares to be issued in connection with the bankruptcy plan if the bankruptcy plan is accepted by the requisite vote of Crescent Operating stockholders and confirmed by the bankruptcy court. The Settlement Agreement provided the basis for Crescent Operating

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to file a prepackaged bankruptcy plan that Crescent Operating believes will provide for a limited recovery to its stockholders. The principal terms of the Settlement Agreement are set forth below.

- Pursuant to the Settlement Agreement, Crescent Operating transferred the following assets, and related indebtedness, to Crescent Real Estate:
 - all of its hotel operations, in lieu of foreclosure, on February 14, 2002, in exchange for a \$23.6 million reduction in its rent obligations to Crescent Real Estate; and
 - all of its land development interests pursuant to a strict foreclosure on February 14, 2002 and March 22, 2002, in exchange for a \$40.1 million reduction of its debt obligations to Crescent Real Estate.
- If the bankruptcy court confirms the bankruptcy plan, Crescent Real Estate will make sufficient funds available to Crescent Operating to pay in full or otherwise resolve the claims of the creditors that Crescent Operating identified in the original Settlement Agreement and to cover the budgeted expenses of implementing the Settlement Agreement and seeking to confirm the bankruptcy plan. To facilitate Crescent Operating's repayment of \$15.0 million, plus interest, that it

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owes to Bank of America, Crescent Real Estate has allowed Crescent Operating to secure the Bank of America debt with a pledge of Crescent Operating's interest in AmeriCold Logistics, LLC. The Settlement Agreement and the bankruptcy plan contemplate that a Crescent Real Estate affiliate will purchase Crescent Operating's interest in AmeriCold Logistics for between \$15.0 to \$15.5 million.

- If Crescent Operating's stockholders accept the bankruptcy plan by the requisite vote and the bankruptcy court confirms the bankruptcy plan, then Crescent Real Estate will issue common shares of Crescent Real Estate to the Crescent Operating stockholders pursuant to the formula contained in the bankruptcy plan and described in "Summary - Summary of the Plan of Reorganization" below. If the stockholders of Crescent Operating do NOT accept the bankruptcy plan, they will NOT receive a distribution of common shares of Crescent Real Estate.
- Crescent Operating stockholders receiving Crescent Real Estate shares, regardless of the value of the shares they receive, will be deemed to have released all claims they may have against Crescent Operating and Crescent Real Estate and those acting on their behalf that arose before the effective date of the bankruptcy plan. The release of Crescent Operating stockholder claims will apply to Crescent Operating stockholders only in their capacity as Crescent Operating stockholders, and will not affect their rights as shareholders of Crescent Real Estate. IF THE CRESCENT OPERATING STOCKHOLDERS DO NOT CAST ENOUGH VOTES TO ACCEPT THE CRESCENT OPERATING BANKRUPTCY PLAN, CRESCENT OPERATING WILL STILL SEEK TO HAVE ITS BANKRUPTCY PLAN CONFIRMED BY THE BANKRUPTCY COURT PURSUANT TO THE "CRAMDOWN" PROVISION OF THE BANKRUPTCY CODE. IF THE BANKRUPTCY COURT CONFIRMS THE BANKRUPTCY PLAN, CRESCENT OPERATING STOCKHOLDERS WILL NOT RECEIVE COMMON SHARES OF CRESCENT REAL ESTATE BUT WILL STILL CEASE TO BE STOCKHOLDERS OF CRESCENT OPERATING ON THE DATE THE BANKRUPTCY PLAN BECOMES EFFECTIVE.
- Crescent Operating will cancel all outstanding shares of its common stock.

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- Crescent Operating and Crescent Real Estate exchanged mutual releases. Pursuant to the Settlement Agreement, Crescent Operating and Crescent Real Estate and the directors, officers, agents and employees of each will be released from all liabilities and claims arising prior to the effective date of the bankruptcy plan.
- Pursuant to both the Settlement Agreement and the bankruptcy plan, Crescent Operating will transfer the remaining assets of Crescent Operating at the direction of Crescent Real Estate.
- If Crescent Real Estate, in its sole discretion, offers to settle or assume unsecured claims that were not identified by Crescent Operating in the original Settlement Agreement and that are asserted by third parties, and Crescent Operating accepts the offer, then the total value of the Crescent Real Estate common shares paid to Crescent Operating stockholders

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will be reduced (but not below a total value of approximately \$2.16 million, or \$0.20 per share of Crescent Operating common stock) by the amount agreed to by Crescent Real Estate and Crescent Operating, and approved by the bankruptcy court, as compensation to Crescent Real Estate for assuming the claims. If Crescent Real Estate and Crescent Operating are not able to agree to Crescent Real Estate's assumption of any such unresolved third party claims that were not identified by Crescent Operating in the original Settlement Agreement and that are an obstacle to confirmation of the Crescent Operating bankruptcy plan, then it is possible that the bankruptcy plan will not be confirmed.

A copy of the Settlement Agreement, including the amendment to the Settlement Agreement, is attached as Annex B to this proxy statement/prospectus. Regardless of whether the bankruptcy plan is approved by Crescent Operating's stockholders and/or confirmed by the bankruptcy court, (i) the Settlement Agreement is effective, (ii) the mutual releases executed in connection with the Settlement Agreement, including Crescent Operating's release of all claims it may have against Crescent Real Estate, are enforceable, and (iii) Crescent Real Estate is obligated to assist Crescent Operating in resolving creditor claims identified by Crescent Operating in the original Settlement Agreement. Crescent Operating does not believe that the Settlement Agreement or the releases incorporated therein would be avoidable in bankruptcy if Crescent Operating elected to file a bankruptcy case independent of the pre-packaged plan.

OTHER CRESCENT OPERATING RECENT DEVELOPMENTS

Effective December 31, 2001, Crescent Operating, in connection with extending the maturity of its \$15.0 million loan from Bank of America from December 31, 2001 to August 15, 2002, agreed to modify the loan from an unsecured to a secured credit facility. Crescent Operating, with the consent of Crescent Partnership which agreed to subordinate its security interest in Crescent Operating's 40% interest in AmeriCold Logistics, pledged all of its interest in AmeriCold Logistics to Bank of America to secure the loan. On August 14, 2002, Bank of America further extended the maturity of this loan to January 15, 2003 and Crescent Operating prepaid interest for that time period in the amount of \$0.3 million. In January 2003, Bank of America further extended the maturity of this loan to March 15, 2003 and Crescent Operating agreed to prepay an additional two months of interest at the loan's current rate. These modifications delay, but do not reduce, any liability that Mr. Rainwater and Mr. Goff may have under the support agreement in which they personally agree to make additional equity investments in Crescent Operating if and to the extent Crescent Operating defaults on payment obligations on its line of credit with Bank of America. Any further defaults by Crescent Operating under the line of credit will revive the default that was waived under the August 2002 amendment to the line of credit.

Effective February 13, 2002, all of the directors of Crescent Operating, other than Jeffrey L. Stevens, who became the sole director of Crescent Operating, resigned. The four directors who resigned continue to serve as trust managers of Crescent Real Estate. In addition, two of these directors, Richard E. Rainwater and John C. Goff, also served as officers of both Crescent Operating and Crescent Real

Estate. Mr. Rainwater continues to serve as Chairman of the Board of Crescent Real Estate and Mr. Goff continues to serve as Vice Chairman of the Board and Chief Executive Officer of Crescent Real Estate. Both resigned from their

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executive officer positions with Crescent Operating effective February 14, 2002. The directors and officers who resigned determined that resignation was advisable and in the interest of the Crescent Operating stockholders in order to avoid potential conflicts of interest and the appearance of impropriety.

On December 19, 2002, the Official Unsecured Creditors Committee of Crescent Machinery Company, referred to in this proxy statement/prospectus as the Crescent Machinery Committee, commenced a lawsuit in the District Court of Tarrant County, Texas, styled "The Estates of Crescent Machinery and E.L. Lester, Inc. v. Mark Roberson, Jeffrey Stevens, Gerald Haddock, Rick Knight and Crescent Operating, Inc." The lawsuit seeks an unspecified amount of direct, consequential and punitive damages, as well as related attorneys' fees, for alleged breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty, negligent misrepresentation, and gross negligence. The Crescent Machinery Committee has alleged that the creditors of Crescent Machinery have been damaged as a result of the following:

- lack of experienced management;
- failure to have a written acquisition plan;
- withdrawal of acquisition funding by Crescent Operating;
- accounting misstatements; and
- failure to restructure Crescent Machinery.

Each of the named individual defendants was either an officer or director, or both, of Crescent Machinery at the time the alleged breaches occurred. Pursuant to the certificate of incorporation and bylaws of Crescent Operating, each of the individual defendants may be entitled to indemnification by Crescent Operating against some or all of the claims alleged in the lawsuit, including reimbursement of reasonable attorney's fees incurred in defending the lawsuit. Crescent Operating has director's and officer's liability insurance in the face amount of \$3.0 million that may afford coverage for these indemnity claims. Nonetheless, if any of the Crescent Machinery Committee's claims against these officers and directors are allowed in an amount in excess of any available insurance, then that claim will have to be satisfied before any distribution could be made to Crescent Operating's stockholders. Crescent Operating intends to vigorously defend against the allegations and claims in the lawsuit. There is a risk that substantial delays could result from the process in which the Crescent Machinery Committee's lawsuit is adjudicated. In addition, there is a risk that if the Crescent Machinery Committee were ultimately successful in the prosecution of its lawsuit, or if Crescent Real Estate, pursuant to the Settlement Agreement, offers to assume or settle any obligations under the Crescent Machinery Committee's lawsuit and Crescent Operating accepts the offer, the total value of the Crescent Real Estate common shares that the Crescent Operating stockholders will receive will be reduced and the Crescent Operating stockholders will receive fewer Crescent Real Estate common shares. There is also a risk that the total obligations of Crescent Operating to the unsecured creditors of Crescent Operating identified in the original Settlement Agreement, plus newly asserted claims such as those in the lawsuit, will exceed the amount of funds that Crescent Real Estate will make available to Crescent Operating for the payment of such claims and that, as a result, the bankruptcy court will not confirm the bankruptcy plan. However, even if Crescent Real Estate does offer to assume or settle obligations under the Crescent Machinery Committee's lawsuit and Crescent Operating accepts the offer, the total value of Crescent Real Estate common shares that the Crescent Operating stockholders will be entitled to receive will be at least \$2.16 million, or \$0.20 per share of Crescent Operating common stock, if the bankruptcy plan is accepted by the Crescent Operating stockholders and confirmed by the bankruptcy court. For more

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information regarding this dispute, please see "Description of Crescent Operating's Business - Legal Proceedings."

SUMMARY OF THE PLAN OF REORGANIZATION

Crescent Operating's Plan of Reorganization, attached as Annex A to this proxy statement/prospectus, is a bankruptcy plan that will be filed with the Bankruptcy Court that is supported by the Settlement Agreement between Crescent Operating and certain of its affiliates on the one hand and Crescent Real Estate on the other hand. In the Settlement Agreement, Crescent Real Estate has agreed to make funds available to Crescent Operating that Crescent Operating will use to satisfy the claims of those creditors that Crescent Operating identified in the original Settlement Agreement. Following the satisfaction of all conditions to the bankruptcy plan, on the effective date of the bankruptcy plan or the date upon which the bankruptcy plan becomes final, at Crescent Real Estate's election, or as soon thereafter as practicable, a plan administrator will make distributions to the holders of allowed claims against Crescent Operating and prepare Crescent Operating for dissolution.

The Plan of Reorganization provides that, upon its acceptance by the Crescent Operating stockholders and its confirmation by the bankruptcy court, Crescent Real Estate will pay on the effective date of the bankruptcy plan or the date upon which the bankruptcy plan becomes final, at Crescent Real

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Estate's election, or as soon thereafter as practicable, to each holder of Crescent Operating common stock the product of:

- the number of shares of Crescent Operating common stock owned by such holder on the confirmation date, divided by the number of shares of Crescent Operating common stock outstanding on the confirmation date, and
- the consideration amount, as described below, divided by the average of the daily closing prices per Crescent Real Estate common share as reported on the New York Stock Exchange Composite Transaction reporting system for the 10 consecutive NYSE trading days immediately preceding confirmation of the Crescent Operating bankruptcy plan by the bankruptcy court.

The consideration amount will equal the greater of:

- approximately \$2.16 million; or
- \$16.0 million minus the total amount of payments made by Crescent Real Estate for claims and expenses relating to the Crescent Operating bankruptcy and the reorganization transactions, including expenses of Crescent Real Estate but excluding payments in satisfaction of the Bank of America claim.

As of December 31, 2002, Crescent Real Estate had incurred approximately \$8.5 million in claims and expenses and expects to incur an aggregate of \$10.6 million to \$13.8 million in total claims and expenses. Based on these estimates, the consideration amount would be between \$5.4 million and \$2.16 million. If there occurs a material variance in this estimated range of aggregate claims and expenses after the date that Crescent Operating mails this proxy

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statement/prospectus to its stockholders, then Crescent Operating will issue a press release and file a Current Report on Form 8-K with the Securities and Exchange Commission disclosing the material variance. Regardless of the total amount of claims and expenses paid by Crescent Real Estate in connection with the Crescent Operating bankruptcy and reorganization transactions, if the bankruptcy plan is accepted by the Crescent Operating stockholders and confirmed by the bankruptcy court, the stockholders of Crescent Operating will receive common shares of Crescent Real Estate with a value of at least \$2.16 million, or \$0.20 per share of Crescent Operating common stock.

No certificate or scrip representing fractional Crescent Real Estate common shares shall be issued, no cash share be paid in lieu of fractional shares, and all fractional shares shall be rounded up or down to the nearest whole Crescent Real Estate common share. If the Crescent Operating stockholders accept the bankruptcy plan and the bankruptcy court confirms the bankruptcy plan, the stockholders will be deemed to have released all claims they may have against Crescent Operating and Crescent Real Estate, as well as their respective officers, directors, stockholders, employees, consultants, attorneys, accountants and other representatives, that arose prior to the effective date of the bankruptcy plan. The release of Crescent Operating stockholder claims will not apply to the claims, if any, of a person who sold its shares of Crescent Operating common stock before the record date for voting on the bankruptcy plan or who voted against the bankruptcy plan, abstained or did not vote on the bankruptcy plan, and thereafter either did not receive or refused to accept a distribution of Crescent Real Estate common shares. The releases of Crescent Operating stockholder claims will apply to Crescent Operating stockholders only in their capacity as Crescent Operating stockholders, and will not affect their rights as holders of Crescent Real Estate common shares. The Crescent Operating common stock will be cancelled upon confirmation of the bankruptcy plan. If the Crescent Operating stockholders reject the bankruptcy plan, the Crescent Operating stockholders will receive no distribution under the bankruptcy plan and will not be deemed to have released any claims. Crescent Operating will seek to

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have the bankruptcy plan confirmed over the objection of its stockholders if they do not vote to accept the bankruptcy plan.

The bankruptcy plan must be approved by certain of Crescent Operating's creditors and the bankruptcy court before it can become effective. Please see "The Plan of Reorganization - Confirmation of the Plan of Reorganization" for a discussion of the requirements for confirmation.

RELEASE AND WAIVER OF CLAIMS BY CRESCENT OPERATING AND STOCKHOLDERS OF CRESCENT OPERATING

The bankruptcy plan provides that on its effective date, Crescent Operating, on its own behalf and as representative of its bankruptcy estate, will release unconditionally, and will be deemed to release unconditionally, from any and all claims, obligations, suits, judgments, damages, rights, causes of action and liabilities whatsoever, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission, transaction, event or other occurrence taking place on or prior to the effective date of the bankruptcy plan in any way relating to the releases, Crescent Operating, the Chapter 11 case or the bankruptcy plan:

- each of Crescent Operating's officers, directors, shareholders, employees, consultants, attorneys, accountants and other representatives;

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- Crescent Partnership and each of Crescent Partnership's officers, directors, partners, employees, consultants, attorneys, accountants, affiliates and other representatives;
- Crescent Real Estate and each of Crescent Real Estate's officers, trust managers, shareholders, employees, consultants, attorneys, accountants, affiliates and other representatives;
- the creditors' committee appointed in the Chapter 11 proceedings, if any; and
- solely in their capacity as members and representatives of the creditors' committee, each member, consultant, attorney, accountant or other representative of the creditors' committee.

The bankruptcy plan further provides that each holder of a claim or interest:

- who has accepted the bankruptcy plan;
- whose claim or interest is in a class that has accepted or is deemed to have accepted the bankruptcy plan pursuant to section 1126 of the Bankruptcy Code; or
- who may be entitled to receive a distribution of property pursuant to the bankruptcy plan, shall be deemed to have unconditionally released the above releasees, from any and all rights, claims, causes of action, obligations, suits, judgments, damages and liabilities whatsoever which any such holder may be entitled to assert, whether known or unknown, foreseen or unforeseen, existing or hereafter arising, in law, equity or otherwise, based in whole or in part upon any act or omission, transaction, event or other occurrence taking place on or before the effective date of the bankruptcy plan in any way relating to Crescent Operating, the Chapter 11 case or the bankruptcy plan, provided however, that the foregoing shall not apply to all rights, claims and obligations created by or arising under the bankruptcy plan.

The release of Crescent Operating stockholder claims will not apply to the claims, if any, of a person who sold its shares of Crescent Operating common stock before the record date for voting on the bankruptcy plan or who voted against the bankruptcy plan, abstained or did not vote, and thereafter either

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did not receive or refused to accept a distribution of Crescent Real Estate common shares. The release of Crescent Operating stockholder claims also will not apply if the holders of Crescent Operating common stock, voting as a class, vote against the bankruptcy plan. The release of Crescent Operating stockholder claims will apply to Crescent Operating stockholders only in their capacity as Crescent Operating stockholders, and will not affect their rights as holders of Crescent Real Estate common shares.

In the event that the bankruptcy court concludes that the bankruptcy

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plan cannot be confirmed without excising any portion of the release of claims held by creditors and stockholders, then, with the consent of Crescent Real Estate in its sole discretion, the bankruptcy plan may be confirmed with the portion of the releases that the bankruptcy court finds is a bar to confirmation excised so as to give effect as much as possible to the foregoing releases without precluding confirmation of the bankruptcy plan. If Crescent Real Estate does not consent to modification of the release, the bankruptcy plan will not be confirmed and Crescent Real Estate will not be obligated to pay in full or otherwise resolve the claims of the creditors that Crescent Operating identified in the original Settlement Agreement or to make a distribution to Crescent Operating stockholders.

In substance, section 524(e) of the Bankruptcy Code