

TRAMMELL CROW CO
Form 10-K
March 15, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR
**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-13531

Trammell Crow Company

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
2001 Ross Avenue
Suite 3400
Dallas, Texas

(Address of principal executive offices)

(214) 863-3000

75-2721454
(IRS Employer
Identification Number)

75201
(Zip Code)

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, \$.01 par value

Securities registered pursuant to section 12(g) of the Act:

**Name of each exchange on
which registered**
New York Stock Exchange

None

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates on June 30, 2003, was \$361,276,336, based on the closing price of the registrant's common stock, \$10.61 per share, reported on the New York Stock Exchange on June 30, 2003.

There were 37,033,667 shares of the registrant's common stock outstanding as of March 1, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be furnished to stockholders in connection with its 2004 Annual Meeting of Stockholders are incorporated by reference in Part III of this Report.

PART I

ITEM 1. BUSINESS

Company Overview

Trammell Crow Company (the "Company") is one of the largest diversified commercial real estate service companies in the United States. The Company delivers a comprehensive range of services to leading multinational corporations, institutional investors and other users of real estate services. In the United States, the Company is a leading provider of commercial property and facilities management services, commercial property brokerage and transaction management services, commercial property development and construction services and project management services. In addition to its full service offices located throughout the United States, the Company has offices in Canada, Europe, Asia and Latin/South America focused on the delivery of real estate services to users of commercial real estate. The Company delivers brokerage services outside the United States through strategic alliances with leading providers in Europe and Asia, through Savills plc ("Savills"), a leading property services company based in the United Kingdom; and in Canada, through JJ Barnicke, a leading Canadian real estate services provider. The Company, which is headquartered in Dallas, Texas, was founded in 1948 by Mr. Trammell Crow. From its founding through the 1980s, the Company's primary business was the development, ownership and management of industrial, office and retail projects. In 1991, the Company was reconstituted as a real estate services company. This reconstitution entailed the separation of the Company's commercial real estate asset base and related operations from its real estate services business. The Company continued to operate the real estate services business while ownership of the commercial real estate asset base that existed in 1991 was segregated into a large number of separate entities distinct from the Company, with independent management and operations.

The Company delivers four core services—building management services, brokerage services, project management services and development services—to both user and investor customers. The Company's business is organized under two separate national leadership structures. The Global Services Group includes substantially all of the building management services, brokerage services, and project management services delivered to both user and investor customers. Substantially all of the Company's real estate development, capital markets and investment activities are conducted through the Company's Development and Investment Group. The Company's revenues are generated primarily in the United States, with approximately 97% of its revenues derived from domestic operations in each of 2001, 2002 and 2003. Revenues derived from various foreign operations comprised approximately 3% of the Company's total revenues in each of 2001, 2002 and 2003. Approximately 94%, 92% and 91% of the Company's long-lived assets at December 31, 2001, 2002 and 2003, respectively, relate to the Company's domestic operations, with the remaining portion of its long-lived assets relating to various foreign operations.

Within the Global Services segment, with approximately 5,900 full-time equivalent ("FTE") employees, the Company provides services to user customers, including multinational corporations, hospitals and universities, who are typically the primary occupants of commercial properties, and investor customers that are not typically the primary occupants of the commercial properties with respect to which services are performed. The building management services provided to user customers consist primarily of facilities management, which entails providing comprehensive day-to-day occupancy related services, principally to large corporations, healthcare systems and other users that occupy commercial facilities in multiple locations. These services include administration and day-to-day maintenance and repair of customer-occupied facilities. Brokerage services provided to user customers include corporate advisory services such as portfolio management and tenant representation. Project management services provided to user customers include facility planning and project management, such as construction oversight, space planning, site consolidations, facilities design, and workplace moves, adds, and changes. The building management services provided to investor customers include property management services relating to all

aspects of building operations, tenant relations and oversight of building improvement processes. Brokerage services provided to investor customers include project leasing and investment sales services whereby the Company advises buyers, sellers and landlords in connection with the leasing and sale of office, industrial and retail space, and land. Project management services provided to investor customers include construction management services such as space planning and tenant finish and coordination.

Within the Development and Investment segment, encompassing approximately 180 FTE employees, the Company provides development activities and services to both investor and user customers both those pursuant to which the Company takes an ownership position and those pursuant to which the Company provides development services for others on a fee basis. The Company provides comprehensive project development services and acquires and disposes of commercial real estate projects. The development services provided include financial planning, site acquisition, procurement of approvals and permits, design and engineering coordination, construction bidding and management, tenant finish coordination, project closeout and project finance coordination. The Company will continue to focus its efforts in this area on risk-mitigated opportunities for investor customers and fee development and build-to-suit projects for user customers, including those in higher education and healthcare. From time to time the Company may pursue development and investment activities, including opportunistic property acquisitions and new development, for its own account. With an organization comprised of professionals dedicated fully to development and investment activities, the Company is positioned to pursue and execute new development business, particularly programmatic business with the Company's large investor customers, and exploit niche market opportunities.

Long-Term Growth Strategy

The Company's long-term growth strategy is centered around taking advantage of its strong brand name; its scale and geographic scope; its large existing customer base; its comprehensive service offerings and, in particular, its development capabilities, which are unique among commercial real estate companies, to grow with both user and investor customers, primarily in North America. The key components of this overall growth strategy are:

Focus on Large Markets and Large Customers. The Company is focused on operating in large markets and believes that this focus will allow the Company to achieve the critical mass that fuels growth with large customers. The Company believes that expanding its presence in these markets will create key hubs of growth, enabling the Company to more easily shift resources as needed, establish brand dominance and recruit top talent. The Company intends to maintain its focus on large customers, which have historically fueled much of the Company's revenue growth. The Company believes this focus on large customers will also benefit the Company as the trend continues for both investors and users of space to consolidate their requirements with a reduced number of service providers. While the Company has and will continue to focus on large markets as noted, it does have and will continue to have a presence in a number of small and mid-sized markets. This presence allows the Company to serve large customers with needs in these markets and to be opportunistic relative to locally generated requirements.

Provide Consistent Quality Service. The Company is focused on providing uniform product quality and service delivery across all markets in which it is active. The Company is also focused on improving its back office infrastructure capabilities including information technology, accounting, and human resources. In the case of all of these capabilities, the effort is to improve them in support of both internal and customer activity. The Company has aimed substantial resources at these areas over the past three years and has reorganized each to make it more effective. The Company believes that the sector in which it competes has consistently been weak in these areas and that customers are eager for service providers to demonstrate improved capabilities. Consequently, the Company believes its efforts in this regard should create a long-term competitive advantage, particularly with large customers, and in turn should create growth opportunities.

Expand Brokerage Network. The Company has committed significant resources to expand its brokerage network and to continue development of a highly competitive brokerage business. The Company has added two new senior executives to its national brokerage leadership team, in addition to adding brokers throughout its network in the U.S., as part of its strategy to build stronger brokerage teams in major markets, with appropriate coverage in secondary markets. The Company employed 526 FTE brokers at December 31, 2003, in addition to 46 transaction managers who provide services to national user customers. Also contributing to this initiative, in 2003 the Company entered into a cross-border, exclusive brokerage alliance with JJ Barnicke, a Canadian-based real estate services company. In addition, the Company maintains its strategic alliance with Savills, which has brokerage capability throughout Europe, Asia-Pacific and Australia, to provide the Company with a delivery platform to meet the needs of its customers in these regions.

Capitalize on Outsourcing Opportunity. While the commercial real estate-related outsourcing business has been impacted by the economic downturn, it remains a large growth opportunity well suited to the Company's full service capability set. As an outsourcing industry leader, the Company will continue to focus its resources, primarily in the U.S. and, to a lesser degree, in Europe, on adding new customers and growing its substantial relationships with existing outsourcing customers.

Focus on Development Opportunities. With a national organization comprised of professionals dedicated fully to development and investment activities, the Company pursues and executes new development business, with initiatives focused on programmatic business with the Company's large investor customers and, increasingly, build-to-suit projects for user customers, including those in higher education and healthcare. The healthcare industry in particular has been less cyclical than the overall economy through the latest downturn, and the Company has increased its focus in this industry. In 2003, the majority of the Company's development starts, based on budgeted project costs, stemmed from its user initiatives. In addition, from time to time the Company may pursue opportunistic property acquisitions or new development with its capital partners or for its own account.

Global Services Segment

The Company provides services to both user and investor customers through its Global Services segment. Global Services segment revenues grew from \$566.0 million in 1999 to \$650.5 million in 2003 (91.9% of 2003 revenues). At December 31, 2001, 2002 and 2003, total assets attributable to the Global Services segment were \$333.1 million, \$253.0 million and \$296.9 million, respectively. Other financial information about the Global Services segment is contained in *Item 8. Financial Statements and Supplementary Data, Note 21.*

User Services

The Company provides outsourcing services, including facilities management services, corporate advisory services and project management services, to user customers. As of December 31, 2003, the Company utilized approximately 3,000 FTE employees to provide services to approximately 24,000 properties for its outsourcing customers. The goal of the Company's user services business is to align the facilities and support services of its customers with their operational and strategic business objectives. Occupancy-related costs frequently represent the largest corporate expense item after compensation and benefits. The Company believes that organizations are increasingly outsourcing their facility or real estate related functions to reduce costs, improve profitability and refocus management and other resources on core competencies. The Company has developed expertise in providing real estate outsourcing services to customers in the financial services, healthcare, automotive, oil and gas and technology/communications industries. The Company believes that its expertise in servicing clients within these industries creates additional growth opportunities.

The Company administers outsourcing services using a centralized administrative, marketing and leadership organization combined with customer-based delivery systems. The Company offers the following outsourcing service delivery options: (i) dedicated Company employees located at a customer site; (ii) a team of Company employees dedicated to a customer but located at Company offices; and (iii) a flexible, nationwide network of Company personnel providing the full menu of the Company's real estate services from the Company's local offices. Most of the Company's outsourcing engagements provide for on-site presence of Company employees, which the Company believes enhances customer communication, provides focused personal service, enhances the protection of the customer's proprietary information and enables the Company to monitor customer satisfaction on an ongoing basis.

The Company seeks to enter into multi-year, full-service outsourcing contracts with its customers. Most contracts are structured so the Company receives a monthly base fee and annual incentives if certain agreed-upon performance targets are satisfied. Most contracts also provide for the reimbursement of customer-dedicated personnel costs and associated overhead expenses. In many cases, these revenue sources are augmented by variable revenues from transaction services and project management services. The Company believes that significant growth opportunities exist within its existing customer base.

The five largest customers for the Company's outsourcing services business, measured in 2003 revenues from such customers, collectively represented 21.0% of the Company's total revenues in 2003.

In addition to the services described below, the Company also offers strategic services, such as consulting, development, properties portfolio management, real estate asset management, and management of accounting and information systems.

Facilities Management Services

Facilities management services includes the day-to-day maintenance and repair of facilities, office services (such as security, reprographics, mail, cafeteria, shipping and receiving, and reception services) and call center services (including work-order, dispatch, vendor management and emergency response). As of December 31, 2003, the Company managed approximately 153.4 million square feet for its outsourcing customers. Revenues from facilities management services were \$209.0 million in 2003 (29.5% of 2003 revenues), up from \$108.3 million in 1999. The growth in revenues is due to the addition of new customers and the expansion of services provided to existing customers.

Corporate Advisory Services

Corporate advisory services include tenant representation and other transaction services such as acquisitions, dispositions, lease administration and lease audits. The Company seeks to manage a customer's entire firm-wide property acquisition and divestiture program, but provides services to many customers on a transaction-by-transaction basis. Revenues from corporate advisory services were \$123.3 million in 2003 (17.4% of 2003 revenues), up from \$104.3 million in 1999. A substantial portion of the growth in revenues is due to a focus on larger transactions and expansion of services provided to existing customers. During most of 2003, the Company's corporate advisory services business continued to be adversely impacted by the weakness of the economy as a whole, with revenues decreasing \$20.2 million, or 14.1%, from their peak in 2000, as the downturn in the economy had a negative impact on the timing and amount of tenant representation and other corporate advisory revenues earned by the Company. However, 2003 revenues increased 13.7% over 2002 revenues as, in the fourth quarter of 2003, the Company experienced an 18.0% increase in corporate advisory services revenue from the amount reported in the fourth quarter of 2002, as there were signs of possible economic recovery.

Project Management Services

Project management services include facility planning and project management (such as construction, space planning, site consolidations, facilities design, workspace moves, adds and changes, and management of furniture, signage and cabling requirements). Revenues from project management services were \$65.5 million in 2003 (9.3% of 2003 revenues), up from \$31.4 million in 1999. Although the downturn in the economy has had a negative impact on user customers' project spending, and hence on the timing and amount of project management revenues earned by the Company, revenues increased because the Company was successful in winning new business and expanding services with existing customers.

Investor Services

The Company provides property management, brokerage, and construction management services to investors in commercial properties.

Property Management Services

As of December 31, 2003, the Company managed approximately 247.7 million square feet of commercial property (excluding facilities occupied by user customers) and served approximately 550 customers and 13,000 tenants nationwide through its locally based property management teams. The Company managed 282.3 million, 312.7 million, 291.7 million and 261.1 million square feet of commercial property at the end of 1999, 2000, 2001 and 2002, respectively. Revenues in 2003 from property management services were \$143.7 million (20.3% of 2003 revenues), down from \$155.4 million in 1999. The decrease in revenues is primarily the result of the Company's sale of portions of the businesses acquired in 1998 from Faison & Associates and Faison Enterprises, Inc. (Faison) back to Faison in 2002 (see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*). The Company has also exited from certain less profitable property management business and has increased its focus on adding office product to its management portfolio, which typically generates higher margins. In addition, property management revenues have been adversely impacted by the downturn in the economy, which has resulted in decreases in occupancy levels and rents, which are drivers of these revenues.

The objective of the Company's property management business is to enhance its customers' investment values by maintaining high levels of occupancy and lowering property operating costs by offering a wide range of property management services. The property management services offered by the Company consist of (i) building management services such as maintenance, landscaping, security, energy management, owner's insurance, life safety and capital repairs (many of which may be subcontracted by the Company to third-party providers); (ii) tenant relations services such as promotional activities, processing tenant work orders and lease administration services; (iii) coordinating tenant finish; and (iv) related financial management services including accounting, financial reporting and analysis.

The Company expects that a significant portion of its new property management engagements will result from (i) contract wins resulting from customers' consolidation of service providers; (ii) property transfers; and (iii) projects that the Company develops for investor customers. To the extent that investors continue to make direct investments in real estate, the Company believes that it will be in an advantageous position to win new property management engagements due to its existing relationships with large investor customers and its ability to provide single-source solutions for their multi-market and multi-functional requirements.

The properties managed by the Company are typically served by locally-based teams of property managers and maintenance personnel supported by various corporate level service functions, including technology support, accounting and purchasing. Large customer accounts are typically managed by teams headquartered at the Company's national office to ensure consistency of quality and to ensure that all customer real estate service requirements are appropriately addressed.

The Company typically receives monthly management fees for the property management services it provides, based upon a specified percentage of the monthly gross income generated from the property under management. In certain cases, the Company's property management agreements entitle it to receive the greater of a minimum agreed-upon base fee or a fee based upon monthly gross income as described above. The amount of the management fee varies depending upon local market conditions, product type and rents, the leasing engagement, arrangements for expense reimbursements and specific services required. Incentive fees are sometimes negotiated in turnaround or other unusual circumstances. The Company also may be reimbursed for a portion of its administrative and payroll costs, as well as certain out-of-pocket expenses, directly attributable to the properties under management.

A typical property management agreement of the Company provides for an indefinite term, but permits the property owner or the Company to terminate the agreement without cause upon thirty days prior written notice. The Company believes that these are customary termination provisions in the industry. From time to time the Company loses assignments, most frequently in circumstances where a property has been sold and the new property owner assumes direct responsibility for managing the property or retains one of the Company's competitors to manage the property.

The Company focuses on establishing alliance relationships with certain of its investor customers in an effort to increase its share of the business of these large customers by obtaining longer-term management contracts across multiple cities and providing other services.

Brokerage Services

Brokerage services are primarily comprised of project leasing (leasing space in real estate owned by investor customers) and investment sales (representing customers buying or selling land or income-producing real estate). While, particularly in larger markets, some of the Company's brokers may specialize in specific types of transaction services (including tenant representation activities, which are included in corporate advisory services), in many cases a broker may facilitate some combination of project leasing, investment sales and tenant representations transactions.

Revenues from investor brokerage services have decreased from \$135.7 million in 1999 to \$95.6 million in 2003 (13.5% of 2003 revenues). A substantial portion of this decrease in revenues is due to the decrease in the number of project leasing and investment sales brokers, a reduction in transaction volume due to reluctance on the part of customers and others to make new real estate commitments due to the downturn in the economy and a reduction in the Company's development inventory available for lease as a result of the decline in project starts. The Company employed approximately 579, 574, 515, 501 and 526 total brokers (including tenant representation brokers facilitating transactions for user customers) at the end of 1999, 2000, 2001, 2002 and 2003, respectively.

The Company typically receives fees for brokerage services based on a percentage of the value of the lease or sale transaction. Some transactions may stipulate a fixed fee or include an incentive bonus component based on the performance of the brokerage professional or customer satisfaction. Although transaction volume, rental rates and sales prices are influenced by economic conditions (thus impacting total brokerage revenues, including tenant representation fees), percentage brokerage fee structures have remained relatively constant through both economic upswings and downturns.

Project leasing revenues are derived from the turnover of tenants and leasing of new space in the Company's property management and leasing portfolios of approximately 332.1 million square feet at December 31, 2003. As space rolls each year, the Company has the opportunity to earn a commission paid by the owner of the property for renewing the existing tenant's lease or releasing the space to a new tenant. In addition, the Company earns commissions for leasing of first generation space in certain projects developed by the Company. Investment sales revenues generally increase in economic upswings as available capital drives the trading of income-producing properties and demand for additional space drives

the purchase of land for new development. Investment sales revenues generally decline in economic downturns as capital resources are more cautious in purchasing income-producing properties and demand for new space slackens. This decline was mitigated in the most recent downturn by historically low interest rates, which have allowed real estate investments to remain attractive opportunities as compared to other investment classes. During 2003, the Company's brokerage services business continued to be adversely impacted by the weakness of the economy as a whole. The downturn in the economy has had a negative impact on the timing and amount of project leasing revenues and to a lesser extent, investment sales revenues earned by the Company, with total brokerage revenue decreasing \$50.2 million from its peak in 2000. However, in the fourth quarter of 2003, the Company experienced a 29.3% increase in brokerage revenue from the amount reported in the fourth quarter of 2002, as there were signs of possible economic recovery. As a result of the strong 2003 fourth quarter, 2003 brokerage revenue remained relatively flat as compared to 2002, with investment sales revenue increasing 10.6% and project leasing revenue decreasing 6.6%.

The Company regards its brokerage force as an integral part of marketing the broad array of services the Company provides to its customer base. The Company's large network of experienced brokers is a valuable asset when seeking new facilities and property management, project management and development services business. The presence of its brokers in on-site project leasing offices can provide the Company with insights into its customers' non-brokerage real estate needs and early opportunities to win the customer's real estate services business. The sheer number of transactions in which its brokers are involved can also be a source of information from which the Company can seek to identify business opportunities in specific local or regional markets.

Brokerage personnel earn commissions and are eligible to receive other forms of incentive compensation including financial rewards for cross-selling efforts that result in new engagements for the Company, such as a development project or the acquisition of a new outsourcing account, which in turn enables the Company to acquire additional brokerage business. These incentives are designed to underscore the Company's belief that the brokerage business is often a key point of entry for new customers, and is thus integral to firm wide efforts to cross-sell a full range of services.

The Company believes that the quality brand identification of its name, its large customer base, the full range of services it offers customers, the overall breadth and scope of the Company's real estate activities and the Company's incentive-based compensation system create an environment conducive to attracting experienced and capable brokerage professionals.

Construction Management

Construction management services primarily include space planning and tenant finish coordination for investor customers in conjunction with property management and leasing assignments. These fees are typically based on a percentage of project construction costs. In 2003, construction management revenues were \$10.7 million (1.5% of 2003 revenues) as compared to \$24.9 million in 1999. During 2003, the timing and amount of construction management revenues earned by the Company continued to be adversely impacted by the weakness of the economy as a whole, with revenues increasing only \$0.7 million from 2002. The decrease in construction management revenues was also driven by the Company's disposition of several construction businesses in the second half of 2001 and in early 2002.

Development and Investment

Revenues in the Company's Development and Investment segment primarily consist of development and construction fees, and gain on disposition of real estate. In addition, income is also generated from investments in unconsolidated subsidiaries. Historically, the Company has focused its commercial real estate development business on investors in office, industrial and retail projects. The Company has the capability to implement active and sizeable development programs, primarily on behalf of its customers. With its Development and Investment organization, the Company has maintained development efforts on behalf of its investor customers and has increased its focus on development for user customers, including those in the areas of higher education and healthcare. In addition, through High Street Residential, a wholly-owned subsidiary of the Company, the Company is increasing its focus on development of mixed-use facilities with a residential component. In 2003, revenues from development and investment activities were \$57.4 million (8.1% of 2003 revenues) as compared to \$110.3 million in 1999. At December 31, 2001, 2002 and 2003, total assets attributable to the Development and Investment segment were \$359.2 million, \$369.1 million and \$333.2 million, respectively. Other financial information about the Development and Investment segment is contained in *Item 8. Financial Statements and Supplementary Data, Note 21*. From January 1, 1999 through December 31, 2003, the Company commenced development of approximately 61.1 million square feet of projects with aggregate budgeted project costs of approximately \$5.5 billion.

The Company provides its customers with services that are vital in all stages of the development and construction process, including: (i) evaluating project feasibility, budgeting, scheduling and cash flow analysis; (ii) site identification, due diligence and acquisition; (iii) procurement of approvals and permits, including zoning and other entitlements; (iv) coordination of project design and engineering; (v) construction bidding and management and tenant finish coordination; (vi) project close-out and user move coordination; and (vii) project finance advisory services.

The Company typically receives a fee for its development services that is based on a negotiated percentage of a project's budgeted construction and development cost. Incentive bonuses may be received for completing a project under budget and within certain critical time deadlines. The Company has also been aggressive in negotiating other incentive compensation arrangements that allow the Company to participate in the investment returns on projects it develops for its customers. The Company may make a co-investment with its customers, receive its pro rata return on its investment in the project and also receive an incentive participation in the project because of the Company's role in sourcing the development project and/or executing a variety of services in the development process. The Company's co-investments in real estate projects typically result in an upside economic interest substantially greater than the co-investment percentage. To facilitate development and investment activity, the Company established four discretionary development and investment funds, which through December 31, 2003, had received funding commitments of \$104.0 million, including \$69.3 million from outside parties. Of the total funding commitments, \$85.2 million had been invested through December 31, 2003, in projects with an aggregate project cost of approximately \$705.6 million, of which \$369.6 million had been sold through December 31, 2003. In addition, during January 2004, the Company established a fifth discretionary development and investment fund with a total funding commitment of \$50.2 million, of which \$40.2 million is from parties other than the Company. In February 2004, the Company announced the establishment of an industrial development program with ING Clarion. The Company will co-invest in the program, which is targeting up to \$500 million of product with a focus on new bulk warehouse distribution centers in major markets throughout the United States. The Company may make significant direct investments in real estate projects with or without customer participation.

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The market for development and investment services is cyclical and is driven by various economic conditions. During 2003, the Company's development and investment business, particularly for investor customers, continued to be adversely impacted by the weakness of the economy as a whole. The downturn in the economy has had a negative impact on transaction volume, rental rates and sales prices. These factors have negatively impacted the timing and amount of development and investment revenues (including incentive development fees) and profits earned by the Company, with revenues decreasing \$77.3 million from their peak in 2000. In addition, the Company is experiencing the consequences of diminished development starts as a result of the economic downturn. The impact of this reduction in development starts will continue to be felt in 2004. As the economy begins its recovery, the Company is starting to experience favorable activity in new development starts, but there will be a time-lag until these opportunities will contribute to the Development and Investment segment's results of operations.

The Company's development activities generate business opportunities for the Company's other service lines, which contribute to the Company's earnings. The Company believes that its increased focus on development for user customers, including corporations and those in the areas of higher education and healthcare, has mitigated a portion of the adverse effect on its revenues when speculative development activities were curtailed in the recent market down cycle. From time to time the Company may pursue opportunistic property acquisitions with its established

capital partners.

Competition

The Company competes in several market segments within the commercial real estate industry, each of which is highly competitive on a national and a local level. The Company faces competition from other real estate services providers, consulting firms and in-house corporate real estate departments. Some of the Company's principal competitors in certain of these segments have capabilities and financial resources equal to or greater than those of the Company and a more substantial global presence. Many of the Company's competitors are local or regional firms, which are smaller than the Company on an overall basis, but may be substantially larger than the Company on a local or regional basis. While the Company does not believe that any of its competitors are dominant in the business lines in which the Company operates, the providers of real estate services that compete with the Company on a national level include Jones Lang LaSalle Incorporated, CB Richard Ellis, Cushman & Wakefield, Inc. and Grubb & Ellis. The Company has faced increased competition in recent years, which has, in some cases, resulted in lower service fees, or compensation arrangements more closely aligned with the Company's performance in rendering services to its customers. In recent years, there has been a significant increase in real estate ownership by REITs, many of which self-manage most of their real estate assets. Continuation of this trend could shrink the asset base available to be managed by third party service providers, decrease the demand for the Company's services and thereby significantly increase its competition. In general, the Company expects the industry to become increasingly competitive in the future. There can be no assurance that such competition will not have a material adverse effect on the Company's business, financial condition or results of operations.

Employees

As of March 1, 2004, the Company had approximately 6,300 employees. Management believes its relations with employees are good. Employees of the Company at certain properties located in Reno, Nevada, New York, New York and Naperville, Illinois are currently represented by a labor union. The unions represented at the respective locations are: Southern California Nevada Regional Council of Carpenters, Local #971; and Laborers International Union of North America-AFL-CIO Local No. 169 (Reno, Nevada); International Union of Operating Engineers Local Union #94-94A-94B AFL-CIO (New York, New York); and International Union of Operating Engineers Local No. 399 (Naperville, Illinois).

Insurance

The Company has the types of insurance coverage, including comprehensive general liability and excess umbrella liability insurance, that it believes are appropriate for a company in the lines of business in which it operates. The Company's management uses its discretion in determining the amounts, coverage limits and deductibility provisions of appropriate insurance coverage on the Company's properties and operations at a reasonable cost and on suitable terms. This might result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full value of the damages suffered by the Company.

Trademarks

The trade name Trammell Crow is material to the Company's business. The Company is party to a license agreement with respect to such trade name (the License Agreement) with CF98, L.P., (CF98), an affiliate of Crow Realty Investors, L.P. d/b/a Crow Holdings (Crow Holdings), which is wholly-owned by certain descendants and affiliates of Mr. Trammell Crow. See the information set forth under the heading *Certain Relationships and Related Transactions* contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 (the Exchange Act) in connection with the Company's 2004 Annual Meeting of Stockholders.

Environmental Liability

Various federal, state, local and foreign laws and regulations impose liability on current or previous real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. If contamination occurs or is present during the Company's role as a property or facility manager or developer, it could be held liable for such costs as a current operator of the property. Such liability may be imposed without regard to the legality of the acts or omissions that caused the contamination and without regard to whether the Company knew of, or was responsible for, the presence of such hazardous or toxic substances, and such liability may be joint and several with any other parties that are deemed legally liable for the contamination. If the liability is joint and several, the Company could be responsible for payment of the full amount of the liability, whether or not any other responsible party is also liable. Under certain laws and common law principles, any failure by the Company to disclose environmental contamination at a property could subject the Company to liability to a buyer or lessee of the property. In addition, some environmental laws create a lien on a contaminated site for costs that a governmental entity incurs in connection with the contamination. The operator of a site also may be liable under common law to third parties for damages and injuries resulting from exposure to hazardous substances or environmental contamination at a site, including liabilities arising from exposure to asbestos-containing materials. There can be no assurance that any of these types of environmental liabilities to which the Company or any of its affiliates become subject will not have a material adverse effect on the Company's business and results of operations.

Some of the properties owned, operated, managed or under development by the Company contain or are adjacent to or near properties that have contained in the past, or currently contain, underground and/or above-ground storage tanks used to store regulated substances such as petroleum products or other hazardous or toxic substances. Some of the properties owned, operated or managed by the Company are in the vicinity of properties which are currently, or have been, the site of releases of regulated substances and remediation activity, and the Company is currently aware of several properties owned, operated or managed by the Company which may be impacted by regulated substances which may have migrated from adjacent or nearby properties or which may be within the borders of areas suspected to be impacted by regional groundwater contamination. In addition, the Company is aware of the presence or the potential presence of regulated substances in the soil or groundwater at several properties owned, operated or managed by it, which may have resulted from historical or ongoing activities on those properties. Based on

the information available to date, the Company believes that the environmental issues described above are being or have been appropriately managed and will not have a material adverse effect on the Company, but there can be no assurance that environmental liabilities or claims will not adversely affect the Company in the future.

Government Regulation

The Company and its brokers, salespersons and, in some instances, property managers are regulated by the states in which they do business. These regulations include licensing procedures, prescribed fiduciary responsibilities and anti-fraud provisions. The Company's activities are also subject to various local, state, national and international jurisdictions' fair advertising, trade, housing and real estate settlement laws and regulations and are affected by laws and regulations relating to real estate and real estate finance and development. In particular, a number of jurisdictions have imposed environmental controls, permitting requirements and zoning restrictions on the development of real estate.

The Company is subject to laws governing its relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. The Company believes that it has the necessary permits and approvals to operate each of its properties and their respective businesses.

Under the Americans with Disabilities Act of 1990 (ADA), all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. While the Company believes that its properties in which it holds an equity interest are substantially in compliance with these requirements, a determination that such properties are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants.

Risk Factors

An investment in the Company involves certain risks. Readers should read this entire report carefully and should consider among other things, the risks described below.

Trade Name License. The Company has entered into a License Agreement with an affiliate of Crow Holdings that allows it to use the name Trammell Crow perpetually throughout the world in any business except the residential real estate business, although the Company can use this name in serving certain mixed-use properties or in providing investment sales brokerage services to buyers and sellers of multi-family residential facilities. This license can be revoked if the Company fails to maintain certain quality standards or infringes upon certain of the licensor's intellectual property rights. If the Company loses the right to use the Trammell Crow name, the Company's business could suffer significantly.

The License Agreement permits certain existing uses of the name Trammell Crow by affiliates of Crow Holdings. The use of the Trammell Crow name or other similar names by third parties may create confusion or reduce the value associated with the Trammell Crow name.

Economic Uncertainty. During 2003, the Company's business continued to be adversely impacted by the weakness of the economy, which had a negative effect on transaction volume, rental rates and sales prices. In addition, user customers' project spending remained low and there were limited attractive opportunities for investment of development capital. These factors have had an adverse effect on the timing and amount of the Company's revenues and profits generated from several of its services, including project leasing, investment sales, tenant representation, project management, construction management and development and investment activities.

While the economy has shown signs of improvement, resulting in the Company's improved results in 2003, the recovery has been relatively jobless. Lack of job growth could continue to affect the real estate industry as a whole, as real estate needs and opportunities may not immediately increase. This could adversely impact the Company's future results of operations.

Real Estate Investment and Co-investment Activities. Selective investment in real estate projects is an important part of the Company's strategy and there is an inherent risk of loss of the Company's investment. As of December 31, 2003, the Company has 35 consolidated real estate projects with invested equity of \$34.7 million and \$10.3 million of recourse obligations. The estimated aggregate project cost of these consolidated real estate projects is \$354.5 million. In addition, at December 31, 2003, the Company was involved as a principal (in most cases, co-investing with one of its customers) in 39 unconsolidated real estate subsidiaries in which the Company had invested \$35.5 million and had guaranteed notes payable of these unconsolidated subsidiaries of \$4.9 million.

Because the disposition of a single significant investment can impact the Company's financial performance in any period, its real estate investment activities could increase (and have historically increased) fluctuations in the Company's net earnings and cash flow. The Company has limited control over the timing of the disposition of these investments and the recognition of any related gain or loss.

The commercial real estate market is cyclical and depends on the perceptions of real estate investors as to general economic conditions. Because the Company's investment strategy typically entails making relatively modest investments alongside its investor customers, its ability to conduct these activities depends in part on the supply of investment capital for commercial real estate and related assets. Furthermore, in real estate down-cycles, economic conditions may make certain development project pursuits less viable, and the Company may decide not to continue pursuing such projects. Consequently, the Company's financial results in down cycles may be (and have been) adversely impacted by increased write-offs of pursuit costs that have been capitalized in connection with potential development projects that the Company has determined not to pursue.

Building occupancies and rental rates typically decline in a down economy. Therefore, it may take longer for the Company to dispose of real estate investments or the selling prices may be lower than originally anticipated. As a result, the carrying value of the Company's real estate investments may become impaired and the Company could record losses as a result of such impairment.

Recruiting and Retention of Qualified Personnel. The Company's continued success is highly dependent upon the efforts of its executive officers and key employees. If any of the Company's key employees leave, its business may suffer. The growth of the Company's business is also largely dependent upon its ability to attract and retain qualified personnel in all areas of its business, particularly management. If the Company is unable to attract and retain such qualified personnel, it may be forced to limit its growth, and its business and operating results could suffer. Organizational changes within the Company could impact its ability to retain personnel.

Reliance on Major Customers and Contract Retention. A relatively small number of the Company's customers generate a significant portion of its revenues. The Company's ten largest customers accounted for approximately 29.2% of its total revenues in 2003, including one customer (Bank of America Technology and Operations, Inc., which receives services primarily from the Company's Global Services segment) that accounted for 10.4% of the Company's total revenues. The loss of one or more of its major customers could have a material adverse effect on the Company's business.

In 2003, revenue from property management and from user customers with whom the Company has outsourcing contracts constituted approximately 20.3% and 44.6%, respectively, of the Company's total revenues. The Company's property management contracts can generally be cancelled upon 30 days notice by either party, and its outsourcing services contracts are typically for multi-year terms with options to renew. Accordingly, contracts representing a significant percentage of the Company's revenues are terminable on short notice or may be scheduled to expire in any one year. The Company has been successful in retaining and renewing a significant portion of its contracts but may not be able to do so in the future. Moreover, increased competition may force the Company to renew such contracts on less favorable terms.

Long-Term Growth. The Company will continue to focus on additions to its base business that should be less impacted by economic down cycles over time and are expected to create long-term growth. The Company's historical growth and any significant future growth will continue to place demands on the Company's resources. The Company's future success and profitability will depend, in part, on its ability to enhance its management and operating systems, manage and adapt to rapid changes in technology, obtain financing for capital expenditures or strategic acquisitions and retain employees and customers through periods of internal changes. The Company may not be able to successfully manage any significant expansion or obtain adequate financing for such expansion on favorable terms, if at all. In addition, the Company is impacted by cycles in the general economy and the commercial real estate industry and, as a result, its growth strategy is directly impacted by those economic cycles.

Acquisitions. The Company may pursue strategic acquisitions in the future. However, the Company may not be able to acquire businesses on favorable terms, and may have to use a substantial portion of its capital resources for any such acquisitions. Challenges and issues commonly encountered in strategic acquisitions include:

- diversion of management's attention to assimilating the acquired business;
- maintaining employment relationships with the Company's employees and employees of an acquired business;
- adverse short-term effects on operating results;
- integrating financial and other administrative systems;
- amortization of any acquired intangible assets; and
- maintaining uniform standards, controls, procedures and policies.

In addition, the acquired businesses' customers could cease to do business with the Company. Potential conflicts between the Company's customers and those of an acquired business could threaten its business relationships. If the Company is not able to manage these risks, its business could suffer significantly.

International Operations. The Company operates in several markets outside the United States and is subject to the risks common for international operations and investments in foreign countries. These risks include:

- difficulties in staffing and managing geographically and culturally diverse, multinational operations;
- lack of familiarity with local business customs and operating environments;
- changes in foreign tax laws;
- changes in currency exchange rates;
- limitations on repatriation of earnings;
- restrictive actions by local governments;
- nationalization and expropriation; and
- war and civil disturbances.

Fluctuations in Quarterly Operating Results. In recent years, the Company's revenues have been lower in each of the first three quarters than in the fourth quarter because its customers tend to close transactions toward the end of their fiscal years (typically the calendar year). This causes the Company to earn a significant portion of its revenues under transaction-oriented service contracts in the fourth quarter.

In addition, a growing portion of the Company's outsourcing contracts provide for bonus payments if it achieves certain performance targets. These incentive payments are generally earned in the fourth quarter. Furthermore, revenues can be influenced by the timing of significant individual transactions. The Company plans its capital and operating expenditures based on its expectations of future revenues. If revenues are below expectations in any given quarter, the Company may be unable to adjust expenditures to compensate for any unexpected revenue shortfall. The Company's business could suffer as a consequence.

Competition. The Company competes in several market segments within the commercial real estate industry, each of which is highly competitive on an international, national and local level. The Company faces competition from other real estate services providers, consulting firms and in-house corporate real estate and outsourcing services departments. The adverse consequences of intense competition may include loss of customers and downward pressure on pricing. In recent years, there has been a significant increase in real estate ownership by REITs, many of which self-manage most of their real estate assets. Continuation of this trend could shrink the asset base available to be managed by third party service providers, decrease the demand for the Company's services and thereby significantly increase its competition.

Environmental Liability. Various laws and regulations impose liability on real property owners or operators for the cost of investigating, cleaning up or removing contamination caused by hazardous or toxic substances at the property. In the Company's role as a property or facility manager or developer, the Company could be held liable as an operator for such costs. This liability may be imposed without regard to the legality of the original actions and without regard to whether the Company knew of, or was responsible for, the presence of the hazardous or toxic substances. If the Company fails to disclose environmental issues, the Company could also be liable to a buyer or lessee of the property. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs incurred in connection with the contamination. If the Company incurs any such liability, its business could suffer significantly.

Anti-takeover Considerations. Certain provisions of the Company's certificate of incorporation, bylaws and certain provisions of Delaware law may deter or prevent a takeover attempt, including an attempt that might result in a premium over the market price for its common stock. These provisions include:

- *Staggered Board of Directors.* The Company's Board of Directors is divided into three classes serving terms currently expiring in 2004, 2005 and 2006. Because the Company's Board of Directors is divided into classes, members of its Board of Directors may only be removed from office prior to the expiration of their terms if such removal is for cause. Therefore, the staggered terms of directors may limit the ability of holders of common stock to complete a change of control.
- *Stockholder Proposals.* The Company's stockholders must follow an advance notification procedure for certain stockholder nominations of candidates for the Company's Board of Directors and for certain other business to be conducted at any stockholders' meeting. This limitation on stockholder proposals could inhibit a change of control.
- *Special Meetings of the Stockholders.* Subject to limited exceptions, special meetings of stockholders may be called only by the Chairman of the Board of Directors or a majority of the members of the Board of Directors. This limitation on special meetings of the stockholders could inhibit a change of control.
- *Preferred Stock.* The Company's certificate of incorporation authorizes the Company's Board of Directors to issue up to 30,000,000 shares of preferred stock having such rights as may be designated by the Company's Board of Directors, without stockholder approval. The issuance of such preferred stock could inhibit a change of control.

- *Delaware Anti-takeover Statute.* Section 203 of the Delaware General Corporation Law restricts certain business combinations with interested stockholders upon their acquiring 15% or more of the Company's common stock. This statute may have the effect of inhibiting a non-negotiated merger or other business combination.

Available Information

The Company's Internet address is www.trammellcrow.com. The Company makes available free of charge through its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

ITEM 2. PROPERTIES

The Company's executive offices are located at 2001 Ross Avenue, 3400 Trammell Crow Center, Dallas, Texas 75201 and consist of approximately 46,898 square feet of leased office space. The Company's telephone number at such address is (214) 863-3000. The Company's lease at its executive offices will expire on December 31, 2004.

ITEM 3. LEGAL PROCEEDINGS

The Company and one of its subsidiaries are defendants in a lawsuit styled *Bank One Oklahoma, N.A. (the Bank), et al. v. Trammell Crow Services, Inc. and Trammell Crow Company*, No. 03 C 3624, pending in the US District Court for the Northern District of Illinois, originally filed on April 2, 2003. The claims asserted by the plaintiffs relate to a sale/leaseback transaction involving a property in Oklahoma City previously owned by the Bank. The suit alleges breach of contract, breach of fiduciary duty, negligent misrepresentation, fraudulent misrepresentation and fraudulent concealment against the Company and/or its subsidiary and alleges that the plaintiffs have been damaged in an unspecified amount in excess of \$15.0 million. The plaintiffs seek to recover actual damages, punitive damages and reasonable attorneys' fees. The suit is in the process of discovery, and no trial date has been set. As of the date of this Form 10-K, the outcome of the suit cannot be predicted with any certainty, and the Company cannot at this time estimate an amount or range of potential loss in the event of an unfavorable outcome. While the Company cannot predict with any certainty the outcome of this matter, the Company currently believes the plaintiffs' claims are without merit and is vigorously defending the lawsuit.

From time to time, the Company is involved in other litigation matters that arise in the ordinary course of its business, some of which involve claims for damages which are substantial in amount. The ultimate liability for these matters cannot be determined. However, based on the information currently available, the Company does not believe that the resolution of any such matters to which it is currently a party will have a material adverse effect on the Company's results of operations, financial condition or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders, through the solicitation of proxies or otherwise, during the quarter ended December 31, 2003.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock is listed on the New York Stock Exchange (NYSE) and trades under the symbol TCC. At March 1, 2004, 37,033,667 shares were held by approximately 1,281 stockholders of record. The following table sets forth the high and low sales prices per share of Common Stock as reported on the NYSE Composite Transaction Tape on a quarterly basis for the last two fiscal years.

	High	Low
2002:		

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First Quarter	\$	15.17	\$	11.10
Second Quarter	\$	15.85	\$	13.07
Third Quarter	\$	14.45	\$	9.36
Fourth Quarter	\$	10.34	\$	8.40
2003:				
First Quarter	\$	9.67	\$	7.75
Second Quarter	\$	10.68	\$	7.75
Third Quarter	\$	13.05	\$	10.50
Fourth Quarter	\$	14.15	\$	11.30

The Company has not historically paid dividends and does not anticipate paying dividends in the foreseeable future. Any future payment of dividends will be at the discretion of the Board of Directors and will depend upon the Company's results of operations, financial condition, cash requirements and other factors deemed relevant by the Board of Directors, including the terms of the Company's indebtedness. Provisions in agreements governing the Company's long-term indebtedness limit the amount of dividends that the Company may pay to its stockholders. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.*

In May 2001, the Company announced that its Board of Directors approved a stock repurchase program. The repurchase program contemplated the repurchase of up to \$15.0 million of the Company's common stock from time to time in open market purchases or through privately negotiated transactions. The repurchase program was completed during the second quarter of 2003 and resulted in the repurchase of 1,593,900 shares at an average cost of \$9.41 per share. The purchases were made with funds generated from operations and existing cash. The Company placed the repurchased shares in treasury. The Company intends to reissue such shares in connection with the Company's employee stock purchase plan and option exercises or restricted stock grants under the Company's long-term incentive plan and other equity-based incentive plans, as well as for other corporate purposes.

Securities Authorized for Issuance under Equity Compensation Plans

The information required by Item 201(d) of Regulation S-K is set forth under the heading *Item 12. Security Ownership of Certain Beneficial Owners and Management.*

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data set forth below have been derived from the consolidated financial statements of the Company. The consolidated financial statements of the Company as of December 31, 2003 and 2002, and for each of the three years in the period ended December 31, 2003, have been audited by Ernst & Young LLP, independent auditors, whose report thereon appears elsewhere herein.

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The selected financial data should be read in conjunction with *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, and the consolidated financial statements and notes thereto contained elsewhere in this report.

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), certain revenues and expenses for the three quarterly periods ended September 30, 2003 and the year ended December 31, 2002, have been reclassified to conform to the presentation for the year ended December 31, 2003. As a result, certain balances differ from the amounts reported in previously filed documents. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation Income from Discontinued Operations, Net of Income Taxes*, for additional information.

	Years Ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except share and per share data)				
Statement of Operations Data:					
REVENUES:					
<i>User Services:</i>					
Facilities management	\$ 108,339	\$ 151,515	\$ 201,573	\$ 233,756	\$ 208,936
Corporate advisory services	104,300	143,536	115,599	108,414	123,335
Project management services	31,404	53,430	52,973	58,134	65,500
	244,043	348,481	370,145	400,304	397,771
<i>Investor Services:</i>					
Property management	155,425	165,081	174,279	147,613	143,727
Brokerage	135,699	145,761	115,463	95,657	95,593
Construction management	24,860	22,672	13,082	10,006	10,736
	315,984	333,514	302,824	253,276	250,056
Development and construction	73,288	90,528	76,630	55,112	44,277
	633,315	772,523	749,599	708,692	692,104
Gain on disposition of real estate	40,653	47,119	28,456	24,218	13,420
Other	2,284	1,738	1,596	1,186	2,308
	676,252	821,380	779,651	734,096	707,832
COSTS AND EXPENSES:					
Salaries, wages and benefits	359,837	437,891	477,628	472,810	452,195
Commissions	97,838	119,702	94,655	87,396	98,957
General and administrative	109,034	128,448	138,308	133,736	120,516
Depreciation	8,431	12,544	15,811	15,236	15,001
Amortization	8,105	9,335	8,164	2,579	1,991
Interest	9,507	16,947	15,057	10,219	7,074
Writedowns due to impairment of goodwill, intangibles and investments		40,347	31,968		
Change in fair value of interest rate swap agreement			4,809		
Restructuring charges			10,952		
	592,752	765,214	797,352	721,976	695,734
Income (loss) from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	\$ 83,500	\$ 56,166	\$ (17,701)	\$ 12,120	\$ 12,098
Income tax (expense) benefit	(32,761)	(22,492)	5,893	(5,402)	(4,906)
Minority interest, net of income taxes	(10,828)	(2,567)	880	1,619	1,231
Income from investments in unconsolidated subsidiaries, net of income taxes	14,532	4,347	5,717	4,961	9,839
Income (loss) from continuing operations	54,443	35,454	(5,211)	13,298	18,262
Income from discontinued operations, net of income taxes(1)				3,355	2,778
Net income (loss)	\$ 54,443	\$ 35,454	\$ (5,211)	\$ 16,653	\$ 21,040

Statement of Operations Data (Continued):

Income (loss) per share from continuing operations:

Basic	\$ 1.56	\$ 1.02	\$ (0.15)	\$ 0.38	\$ 0.51
Diluted(2)	\$ 1.50	\$ 0.98	\$ (0.15)	\$ 0.36	\$ 0.49

Income per share from discontinued operations, net of income taxes:

Basic	\$	\$	\$	\$ 0.09	\$ 0.08
Diluted	\$	\$	\$	\$ 0.09	\$ 0.08

Earnings (loss) per share:

Basic	\$ 1.56	\$ 1.02	\$ (0.15)	\$ 0.47	\$ 0.59
Diluted(2)	\$ 1.50	\$ 0.98	\$ (0.15)	\$ 0.45	\$ 0.57

Weighted average common shares outstanding:

Basic	34,991,707	34,851,738	35,356,710	35,741,754	35,572,493
Diluted(2)	36,411,063	36,147,744	35,356,710	36,797,012	36,780,515

Other Data:

Calculation of EBITDA(3) and EBITDA, as adjusted(4):

Net income (loss)	\$ 54,443	\$ 35,454	\$ (5,211)	\$ 16,653	\$ 21,040
Income tax expense (benefit)(5)	35,154	23,681	(926)	13,391	14,350
Depreciation	8,431	12,544	15,811	15,236	15,001
Amortization	8,105	9,335	8,164	2,593	1,995
Interest expense	9,507	16,947	15,057	10,346	7,369
EBITDA(3)	115,640	97,961	32,895	58,219	59,755

Writedowns due to impairment of goodwill, intangibles, and investments

40,347 31,968

Minority interest related to goodwill writedown, before income tax expense

(2,346)

Change in fair value of interest rate swap agreement

4,809

Restructuring charges

10,952

EBITDA, as adjusted(4)

	\$ 115,640	\$ 138,308	\$ 78,278	\$ 58,219	\$ 59,755
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Net cash provided by (used in) operating activities	\$ (2,902)	\$ 40,631	\$ 28,826	\$ 71,863	\$ 48,769
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Net cash provided by (used in) investing activities	(19,267)	(45,489)	(7,862)	4,697	3,902
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Net cash provided by (used in) financing activities	(18,249)	12,967	(38,542)	(36,614)	(25,060)
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Balance Sheet Data:

Cash and cash equivalents	\$ 47,528	\$ 55,637	\$ 38,059	\$ 78,005	\$ 105,616
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Total assets	633,956	722,015	692,262	622,066	630,126
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Long-term debt (excluding notes payable on real estate) and capital lease obligations

	64,084	88,242	62,013	22,717	13,106
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Notes payable on real estate(6)	134,827	148,098	158,226	113,807	103,267
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Total liabilities	348,561	391,274	377,565	273,841	273,601
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Minority interest	33,743	39,782	28,574	39,871	28,896
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Stockholders' equity	251,652	290,959	286,123	308,354	327,629
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(1) Income from discontinued operations includes the operations of real estate properties and gain on disposition of real estate properties held for sale or sold subsequent to January 1, 2002, in which the Company retained or expects to retain no continuing involvement, in accordance with FAS 144. Dispositions of real estate assets have been and will continue to be a significant part of the Company's activities and, as a result of applying the

provisions of FAS 144, the Company expects a greater amount of these activities to be classified as discontinued operations in future periods as fewer asset dispositions will qualify for grandfathered treatment under FAS 144.

(2) The weighted average shares outstanding used to calculate diluted earnings per share for 2001 excludes the dilutive effect of options, as their inclusion would have been anti-dilutive.

(3) EBITDA represents earnings before interest, income taxes, depreciation and amortization. Management believes that EBITDA is a meaningful measure of the Company's operating performance, cash generation and ability to service debt. However, EBITDA should not be considered as an alternative to: (i) net earnings (determined in accordance with accounting principles generally accepted in the United States (GAAP)); (ii) operating cash flow (determined in accordance with GAAP); or (iii) liquidity. Management also believes that EBITDA is sometimes useful to compare the operating results of companies within an industry due to the fact that it eliminates the effects of certain financing and accounting decisions. The Company's calculation of EBITDA may differ from similarly titled items reported by other companies.

(4) EBITDA, as adjusted, represents EBITDA (as described in note (3) above) before the 2000 and 2001 writedowns due to impairment of goodwill, intangibles and investments, net of related minority interest, the 2001 restructuring charges and the 2001 change in fair value of the Company's interest rate swap agreement. Management believes these items are not likely to recur within two years, and that excluding these items provides a more comparable measure of the Company's results over the five-year period.

(5) Income tax (expense) benefit includes income taxes applicable to minority interest, income from investments in unconsolidated subsidiaries and discontinued operations, each of which is presented net of income taxes in the Company's consolidated statements of operations.

(6) Notes payable on real estate includes current portion of notes payable on real estate, notes payable on real estate, less current portion and notes payable included in liabilities related to real estate and other assets held for sale.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's consolidated financial statements and the notes thereto and the other information included in Item 15(a)(1) and (2) of this Annual Report on Form 10-K.

Overview

The Company's Global Services revenue streams consist primarily of payments made pursuant to service contracts and variable transaction-oriented payments. The Company typically receives base monthly fees from customers for services provided under its facilities management and property management contracts. The fees received by the Company for the provision of transaction services (corporate advisory services and brokerage) are typically paid in connection with the consummation of a transaction such as the purchase or sale of commercial property or the execution of a lease. The Company also earns fees from project and construction management that are typically determined by the size and cost of the project. The arrangement may be part of a management service contract or an individual project engagement. In addition, the Company earns incentive fees under various management contracts that are based on quantitative and/or qualitative criteria, such as achieving cost savings levels or certain customer service ratings.

The Company's Development and Investment revenue streams consist primarily of payments related to individual real estate development projects. Revenues from the Company's development activities consist of development and construction fees, which are typically based upon a negotiated percentage of a project's cost, and incentive development fees for completing a development project under budget, within certain critical time deadlines and/or for achieving specified leasing targets. Income from the Company's investment activities primarily consists of gain on disposition of real estate and income from unconsolidated subsidiaries that hold real estate assets. The Company's Development and Investment

revenue streams also include rental revenue earned by the Company's consolidated operating real estate properties. The Company has limited control over the timing of the disposition of these investments and the recognition of any related gain or loss. Because the disposition or impairment of a single significant investment can impact the Company's financial performance in any period, these investment activities create fluctuations in the Company's revenues. Because the Company's investment strategy typically entails making relatively modest investments alongside its investor customers, its ability to conduct these activities depends in part on the supply of investment capital for commercial real estate and related assets.

During 2003, the Company's business continued to be adversely impacted by the weakness of the economy as a whole. The downturn in the economy and its resultant work force layoffs and business failures have led to higher than normal vacancy rates in many markets. That fact, coupled with uncertainty as to the timing of any economic recovery, has negatively impacted the timing and the amount of revenues and profits generated from several of the Company's services, including project leasing, investment sales, tenant representation, construction management and development and investment activities. However, in the fourth quarter of 2003, the Company experienced significant increases from the amount reported in the fourth quarter of 2002 in its brokerage, corporate advisory services and construction management service lines (29.3%, 18.0% and 8.9%, respectively), as there were signs of possible economic recovery. Development and investment activities, however, continued to be impacted by the downturn in the economy, largely due to the decrease in the Company's development starts in recent years.

The Company's expenses typically consist of salaries, wages and benefits, commissions, general and administrative expenses, depreciation and amortization expense and interest. Salaries, wages and benefits and commissions constitute a majority of the Company's total costs and expenses.

Over the last three years, an average of 53.5% of the Company's income (loss) from continuing operations (adjusted to add back non-recurring charges in 2001 relating to writedowns due to impairment of goodwill, intangibles and investments, net of related minority interest, the 2001 restructuring charges and change in fair value of the Company's interest rate swap agreement, net of interest expense offset) has been generated in the fourth quarter, due primarily to a demonstrated tendency of participants in the commercial real estate industry to complete transactions toward year-end. In addition, certain of the Company's property management and outsourcing contracts provide for incentive payments if the Company achieves certain performance targets, which are generally recognized in the fourth quarter. In contrast, the Company's non-variable operating expenses, which are treated as expenses when incurred during the year, are relatively constant on a quarterly basis. See *Quarterly Results of Operations and Seasonality*.

Critical Accounting Policies

Management of the Company is required to make certain estimates and assumptions in connection with the preparation of its consolidated financial statements in accordance with GAAP. These estimates and assumptions impact the reported amount of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements. They also impact the reported amount of net earnings during any period. Actual results could differ from those estimates. Certain of the Company's accounting policies and estimates have a more significant impact on its financial statements than others, due to the magnitude of the underlying financial statement elements.

Consolidation

The Company's determination of the appropriate accounting method with respect to its investments in subsidiaries is based on the amount of control the Company has (combined with its ownership interest) in the underlying entity, or, if the entity is a variable interest entity (VIE) under Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46),

based on the factors described in the following paragraph. The Company's consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and other subsidiaries over which the Company has control. In addition, with respect to entities formed subsequent to January 31, 2003, the Company consolidates any VIE of which the Company is the primary beneficiary. The Company's investments in subsidiaries (including VIEs of which the Company is not the primary beneficiary) in which it has the ability to exercise significant influence over operating and financial policies, but does not control (including subsidiaries where the Company has less than 20% ownership), are accounted for on the equity method. All other investments of the Company are accounted for on the cost method.

The Company determines if an entity is a VIE under FIN 46 based on several factors, including whether the entity's total equity investment at risk upon inception is sufficient to finance the entity's activities without additional subordinated financial support provided by any parties, including equity holders. The Company makes judgments regarding the sufficiency of the equity at risk based first on qualitative analysis, then quantitative analysis if necessary. In a quantitative analysis, the Company incorporates various estimates, including estimated future cash flows, asset hold periods and discount rates, as well as estimates of the probabilities of various scenarios occurring. If the entity is a VIE, the Company then determines whether it will absorb the majority of expected losses and/or receive the majority of expected returns, and if so, consolidates the entity as the primary beneficiary. The Company is not required to reconsider the entity's VIE status if the entity incurs losses that exceed expectations, but is required to reconsider the status if the structure of the entity changes. The Company determines whether an entity is a VIE and, if so, whether it should be consolidated by utilizing judgments and estimates that are inherently subjective. If the Company made different judgments or utilized different estimates in these evaluations, it could result in differing conclusions as to whether or not an entity is a VIE and whether or not to consolidate such entity.

The Company does not have any unconsolidated investments in VIEs with respect to entities formed subsequent to January 31, 2003. The Company will apply the provisions of FIN 46R (a revision of FIN 46) as of March 31, 2004 to entities formed prior to February 1, 2003 that are not considered to be special-purpose entities. None of the entities in which the Company has an investment are considered to be special-purpose entities.

Accounting for an investment as either consolidated or by the equity method would have no impact on the Company's net income (loss) or stockholders' equity in any accounting period, but a change in treatment would impact individual income statement and balance sheet items, as consolidation would effectively gross up the Company's income statement and balance sheet. However, if control aspects of an investment accounted for by the cost method were different, it could result in the Company being required to account for an investment by consolidation or by the equity method. Under the cost method, the investor only records its share of the underlying entity's earnings to the extent that it receives dividends from the investee; when the dividends received by the investor exceed the investor's share of the investee's earnings subsequent to the date of the investor's investment, the investor records a reduction in the basis of its investment. Under the cost method, the investor does not record its share of losses of the investee. Conversely, under either consolidation or equity method accounting, the investor effectively records its share of the underlying entity's net income or loss, to the extent of its investment or its guarantees of the underlying entity's debt. At December 31, 2003, \$2.5 million of the Company's \$65.0 million total investment in unconsolidated subsidiaries relates to investments that are accounted for using the cost method. Accounting for an investment under either the equity or cost method has no impact on the evaluation of impairment of the underlying investment; under either method, impairment losses are recognized upon evidence of permanent losses of value.

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Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements*, which has four basic criteria that must be met before revenue is recognized:

- existence of persuasive evidence that an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed and determinable; and
- collectibility is reasonably assured.

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The Company's various revenue recognition policies are consistent with these criteria. The revenues of the Company's business that are subject to the most judgment are its brokerage commission revenues and incentive-based management and development fees.

The Company's brokerage commission revenues are comprised of commissions earned for investment sales, project leasing and tenant representation transactions. Revenues from investment sales transactions are recognized upon the closing of a sale and are generally paid to the Company by the seller out of the sale proceeds; therefore, there is generally no estimation or judgment involved in the recognition of these revenues. Project leasing and tenant representation commissions are generally recorded half upon execution of a lease contract, and the remainder upon tenant occupancy. The Company performs thousands of project leasing and tenant representation transactions annually, each of which is typically governed by a separate commission agreement. While the majority of these agreements generally provide that half of the commission is earned upon execution of a lease contract and half upon tenant occupancy, agreements do vary as to their terms and complexity, usually due to negotiation of the commission agreement language with the customer. If there are any contingencies with respect to any portion of the commission, that portion of the commission is not recognized as revenue until the contingency is resolved. The unique nature and complexity of each brokerage transaction require the Company to use varying levels of judgment in determining timing of revenue recognition. The judgment involved in revenue recognition is understanding the complex terms of the agreements and determining the appropriate time to recognize revenue for each transaction based on such terms. Each transaction is evaluated to determine: (1) at what point in time revenues are earned, (2) whether there are contingencies involved that would impact the timing of recognition of revenue, and (3) how and when such contingencies will be resolved. The actual timing of revenue recognition could vary if different judgments were made.

The Company earns incentive development and management fees from its development services, property management services and certain services provided to user customers in the Company's Global Services segment, including facilities management services, project management services and corporate advisory services. These fees are recognized when quantitative criteria have been met (such as specified leasing or budget targets, customer service levels, or achieved levels of operating expense savings) or, for those incentive fees based on qualitative criteria, upon approval of the fee by the customers. The Company's incentive development and management fee revenues are not recognized to the extent that such revenues are subject to future performance contingencies, but rather once the contingency has been resolved. Certain of these fees may require estimates and judgment by the Company and, as such, actual revenue may differ from the Company's estimates.

Carrying Value of Real Estate, Goodwill and Intangible Assets

As of December 31, 2003, the Company's total real estate, goodwill and intangible assets were \$167.0 million, \$74.3 million and \$5.9 million, respectively (26.5%, 11.8% and 0.9% of total assets, respectively). Goodwill reflects the excess of the purchase price over the fair value of the net assets of real

estate service companies acquired by the Company primarily in 1998 and 1999. Intangible assets primarily include management contracts and employment/non-compete agreements for certain employees entered into in connection with these acquisitions and in connection with the hiring of certain other employees. Intangible assets also include upfront cash payments made to customers and certain contract acquisition costs incurred upon initiation of new long-term outsourcing contracts. The Company accounts for its real estate, goodwill and other intangibles in accordance with Statements of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS 142) and FAS 144. These statements require the Company to evaluate the carrying value of its real estate, goodwill and intangible assets based on assumptions and estimates of fair value and future cash flow information. These assumptions and estimates developed by the Company may differ from actual results. If different assumptions and estimates were used, carrying values could be adversely impacted, resulting in writedowns that would adversely affect the Company's earnings.

Real Estate

With respect to the Company's real estate assets, FAS 144 establishes restrictive criteria to classify an asset as held for sale. At December 31, 2003, assets included in real estate held for sale include only completed assets or land for sale in its present condition that meet all of the FAS 144 held for sale criteria. All other real estate assets are classified in one of the following line items in the Company's balance sheet: (i) real estate under development (current), which includes real estate that the Company is in the process of developing that is expected to be completed and disposed of within one year of the balance sheet date; (ii) real estate under development (non-current), which includes real estate that the Company is in the process of developing that is expected to be completed and disposed of more than one year from the balance sheet date; or (iii) real estate held for investment, which consists of completed assets not expected to be disposed of within one year of the balance sheet date and land on which development activities have not yet commenced. Any asset reclassified from real estate held for sale to real estate under development (current or non-current) or real estate held for investment is measured individually at the lower of its carrying amount before it was classified as held for sale, adjusted (in the case of real estate held for investment) for any depreciation that would have been recognized had the asset been continuously classified as real estate held for investment, or the fair value at the date of the reclassification.

Real estate held for sale is recorded at the lower of cost or estimated fair value less cost to sell. If an asset's fair value less cost to sell, based on discounted future cash flows or market comparisons, is less than its carrying amount, an allowance is recorded against the asset.

Real estate under development and real estate held for investment are carried at cost less depreciation, as applicable. When indicators of impairment are present, real estate under development and real estate held for investment are evaluated for impairment and losses are recorded when undiscounted cash flows estimated to be generated by an asset are less than the asset's carrying amount. The amount of the impairment loss is calculated as the excess of the asset's carrying value over its fair value, which is determined using a discounted cash flow analysis or market comparisons. Buildings and improvements included in real estate held for investment are depreciated using the straight-line method over estimated useful lives, generally 39 years. Tenant improvements included in real estate held for investment are amortized using the straight-line method over the shorter of their estimated useful life or the terms of the respective leases.

The Company evaluates each of its real estate assets on a quarterly basis in order to determine the classification of each asset in the Company's balance sheet. This evaluation requires judgment by the Company in determining certain criteria that must be evaluated under FAS 144, such as the estimated time to complete assets that are under development and the timeframe in which the Company expects to sell its real estate assets. The classification of real estate assets determines which real estate assets are to be depreciated as well as what method is used to evaluate and measure impairment. Had the Company

evaluated its assets differently, the balance sheet classification of such assets, depreciation expense and impairment losses could have been different.

When acquiring real estate with existing buildings, the Company allocates the purchase price between land, building and intangibles related to in-place leases, if any, based on their relative fair values. The fair values of acquired land and buildings are determined based on an estimated discounted future cash flow model with lease-up assumptions as if the building was vacant upon acquisition. The fair value of in-place leases includes the value of net lease intangibles for above or below-market rents and tenant origination costs, determined on a lease by lease basis using assumptions for market rates, absorption periods, lease commissions and tenant improvements. The capitalized values for both net lease intangibles and tenant origination costs are amortized over the term of the underlying leases. Amortization related to net lease intangibles is recorded as either an increase to or a reduction of rental income and amortization for tenant origination costs is recorded to amortization expense. If the Company used different estimates in these valuations, the allocation of purchase price to each component could differ, which could cause the amount of amortization related to lease intangibles and tenant origination costs to be different, as well as depreciation of the related building.

FAS 144 extends the reporting of a discontinued operation to a component of an entity, and further requires that a component be classified as a discontinued operation if the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the entity in the disposal transaction and the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. As defined in FAS 144, a component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. Because each of the Company's real estate assets is generally accounted for in a discrete subsidiary, almost every real estate asset constitutes a component of an entity under FAS 144, increasing the likelihood that the disposition of assets the Company holds for sale in the ordinary course of business must be reported as a discontinued operation unless the Company has significant continuing involvement in the operations of the asset after its disposition. Furthermore, operating profits and losses on such assets are required to be recognized and reported as operating profits and losses on discontinued operations in the periods in which they occur.

Goodwill

Under FAS 142, which was effective January 1, 2002, the Company determined its reporting units, which are the basis of its future annual goodwill impairment tests. The required impairment tests are based on a comparison of the fair value of each of the Company's reporting units to the carrying value of such unit. A writedown of goodwill must be recorded if the fair value of a reporting unit falls below its carrying value. The Company has identified its reporting units to mirror its two segments, Global Services and Development and Investment, as each segment's underlying business units have similar long-term economic characteristics and service deliveries. If the Company defined its reporting units differently, the results of its annual impairment tests could be impacted. The Company performed its required annual impairment tests of goodwill in 2003, and has determined that no impairment of goodwill exists at December 31, 2003.

Also, under FAS 142, effective January 1, 2002, goodwill is no longer amortized, which would have decreased 2001 net loss by approximately \$2.7 million (\$0.08 per share) had FAS 142 been in effect in 2001.

Intangible Assets

The Company's intangible assets are evaluated for impairment when indicators of impairment are present. Impairment losses are recorded when estimates of undiscounted future cash flows are less than

the value of the underlying asset. The amount of any impairment loss is calculated as the excess of the intangible asset's carrying value over its fair value, which is determined using a discounted cash flow analysis. The determination of future cash flows is based on assumptions and estimates of forecasted financial information that may differ from actual results.

In 2002, the Company recognized a writedown of \$1.1 million (recorded as a reduction of facilities management revenues) due to the impairment of an intangible related to an upfront cash payment made to a customer upon inception of a management contract in a previous period. The Company and the customer mutually agreed to terminate the contract in 2002. Also, in 2001 the Company recognized a writedown of \$2.1 million (recorded as a reduction of project management services revenues) due to the impairment of an intangible related to an upfront contract payment made to a customer upon inception of the underlying agreement in a previous period. The Company had determined that the future cash flows from the underlying contract did not support the value of the intangible, and it was the Company's intent to terminate the contract. The Company and the customer mutually agreed to terminate the contract in 2002.

The Company has considered the average life of its management contracts to determine the period over which to amortize intangible assets related to acquired management contracts, which is the Company's estimate of the useful life of the underlying management contracts. This estimate requires judgment by the Company, and had the Company chosen a shorter time period over which to amortize such intangible assets, amortization expense would have increased, adversely impacting the Company's results of operations. The Company amortizes intangible assets resulting from employment/non-compete agreements to compensation expense over the period of time that future services to the Company are required, as stipulated in the applicable agreement, or over the period of time that the employee is obligated to repay such amounts to the Company if his employment is terminated. Intangible assets related to upfront cash payments made to customers and certain contract acquisition costs are amortized as a reduction of the related revenue over the non-cancelable term of the underlying contract.

Self-Insurance

The Company is self-insured for portions of its health and workers' compensation benefits to employees and general and automotive liability claims.

The Company self-insures (through a health and welfare benefit trust) its health insurance benefits provided to substantially all of its employees and has purchased stop-loss insurance to cover individual claims in excess of \$250,000. On a quarterly basis, the Company utilizes an independent actuary to evaluate the estimate of incurred but not reported claims under the Company's health insurance programs. Each quarter, the Company adjusts its accrual to this estimate plus its share of unpaid reported claims. The actuarial estimate of the Company's exposure to health insurance claims is subjective, and the amount of claims actually incurred could differ, which could result in increased or decreased expense in future periods. As of December 31, 2003, the Company's liability to the trust, primarily for unpaid claims (both reported and not reported) related to these health insurance benefits, is \$3.0 million, included in accrued expenses on the Company's consolidated balance sheet.

The Company's wholly-owned captive insurance company, which is subject to applicable insurance rules and regulations, insures the Company's exposure related to workers' compensation benefits provided to employees, and buys excess coverage from an unrelated insurance carrier. The Company buys general liability and automotive insurance through an unrelated insurance carrier. The captive insurance company reinsures the deductibles. Given the nature of these types of claims, it may take several years for resolution and determination of the cost of these claims. The Company is required to estimate the cost of these claims in its financial statements. Exposure to workers' compensation, general liability and automotive claims is evaluated on an annual basis during the Company's fourth quarter by an independent actuary.

The Company adjusts its annual expense based on this actuarial estimate, and utilizes this estimate as the basis for the next year's expense, until the actuary calculates the next annual estimate. The estimates that the Company utilizes to record its potential losses on claims are inherently subjective, and actual claims could differ from amounts recorded, which could result in increased or decreased expense in future periods. As of December 31, 2003, the Company's reserve for claims under these insurance programs is \$9.3 million, of which \$2.8 million is included in other current liabilities and the remainder is included in other liabilities on the Company's consolidated balance sheet.

Results of Operations

The following table sets forth items from the Company's consolidated statements of operations for each of the three years in the period ended December 31, 2003, as a percent of total revenue for the periods indicated.

	Years Ended December 31,					
	2001		2002		2003	
REVENUES:						
<i>User Services:</i>						
Facilities management	25.9	%	31.8	%	29.5	%
Corporate advisory services	14.8	%	14.8	%	17.4	%
Project management services	6.8	%	7.9	%	9.3	%
	47.5	%	54.5	%	56.2	%
<i>Investor Services:</i>						
Property management	22.4	%	20.1	%	20.3	%
Brokerage	14.8	%	13.0	%	13.5	%
Construction management	1.7	%	1.4	%	1.5	%
	38.9	%	34.5	%	35.3	%
Development and construction	9.8	%	7.5	%	6.3	%
	96.2	%	96.5	%	97.8	%
Gain on disposition of real estate	3.6	%	3.3	%	1.9	%
Other	0.2	%	0.2	%	0.3	%
	100.0	%	100.0	%	100.0	%
COSTS AND EXPENSES:						
Salaries, wages and benefits	61.3	%	64.4	%	63.9	%
Commissions	12.2	%	11.9	%	14.0	%
General and administrative	17.7	%	18.2	%	17.0	%
Depreciation	2.0	%	2.1	%	2.1	%
Amortization	1.1	%	0.4	%	0.3	%
Interest	1.9	%	1.4	%	1.0	%
Writedowns due to impairment of goodwill, intangibles and investments	4.1	%		%		%
Change in fair value of interest rate swap agreement	0.6	%		%		%
Restructuring charges	1.4	%		%		%
	102.3	%	98.4	%	98.3	%
Income (loss) from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	(2.3))%	1.6	%	1.7	%
Income tax expense (benefit)	0.8	%	(0.7))%	(0.7))%
Minority interest, net of income taxes	0.1	%	0.2	%	0.2	%
Income from investment in unconsolidated subsidiaries, net of income taxes	0.7	%	0.7	%	1.4	%
Income (loss) from continuing operations	(0.7))%	1.8	%	2.6	%
Income from discontinued operations, net of income taxes	0.0	%	0.5	%	0.4	%
Net income (loss)	(0.7))%	2.3	%	3.0	%

Results of Operations Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), certain revenues and expenses for the three quarterly periods ended September 30, 2003 and the year ended December 31, 2002, have been reclassified to conform to the presentation for the year ended December 31, 2003. As a result, certain balances differ from the amounts reported in previously filed documents. See *Income (Loss) from Discontinued Operations, Net of Income Taxes*, below, for additional information.

	For the Years Ended December 31, 2003			
	2002	2003	\$ Change	% Change
	(\$ in millions)			
REVENUES:				
<i>User Services:</i>				
Facilities management	\$ 209.0	\$ 233.8	\$ (24.8)	(10.6)%
Corporate advisory services	123.3	108.4	14.9	13.7 %
Project management services	65.5	58.1	7.4	12.7 %
	397.8	400.3	(2.5)	(0.6)%
<i>Investor Services:</i>				
Property management	\$ 143.7	\$ 147.6	\$ (3.9)	(2.6)%
Brokerage	95.6	95.7	(0.1)	(0.1)%
Construction management	10.7	10.0	0.7	7.0 %
	250.0	253.3	(3.3)	(1.3)%
Development and construction	44.3	55.1	(10.8)	(19.6)%
	692.1	708.7	(16.6)	(2.3)%
Gain on disposition of real estate	13.4	24.2	(10.8)	(44.6)%
Other	2.3	1.2	1.1	91.7 %
	707.8	734.1	(26.3)	(3.6)%
COST AND EXPENSES:				
Salaries, wages and benefits	452.2	472.8	(20.6)	(4.4)%
Commissions	98.9	87.4	11.5	13.2 %
General and administrative	120.5	133.8	(13.3)	(9.9)%
Depreciation	15.0	15.2	(0.2)	(1.3)%
Amortization	2.0	2.6	(0.6)	(23.1)%
Interest	7.1	10.2	(3.1)	(30.4)%
	695.7	722.0	(26.3)	(3.6)%
Income from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	12.1	12.1		%
Income tax expense	(4.9)	(5.4)	0.5	(9.3)%
Minority interest, net of income taxes	1.2	1.6	(0.4)	(25.0)%
Income from investments in unconsolidated subsidiaries, net of income taxes	9.8	5.0	4.8	96.0 %
Income from continuing operations	18.2	13.3	4.9	36.8 %
Income from discontinued operations, net of income taxes	2.8	3.4	(0.6)	(17.6)%
Net income	\$ 21.0	\$ 16.7	\$ 4.3	25.7 %

Revenues. Facilities management revenue decreased primarily due to the Company's exit from certain unprofitable contracts and the loss of other customers during 2002 and the first half of 2003, including certain customer relationships terminated as part of the Company's wind-down of its centralized call center operations. Reimbursement of salaries, wages, benefits, and out-of-pocket general and administrative costs, a component of facilities management revenue, decreased \$10.4 million in 2003, compared to 2002. The composition of facilities management revenue, including management fees and reimbursements, can vary significantly from period to period based on the terms of the underlying management agreements in effect each period.

Corporate advisory services revenues began to increase from the prior year in the second quarter 2003 as customers began showing less reluctance to make new real estate commitments. In addition, during 2003 the Company increased the number of tenant representation brokers as part of its focus on expanding its brokerage network. The Company was successful in closing several significant tenant representation transactions and other transactions on behalf of its user customers.

Project management revenue growth was primarily due to the addition of new customers and the expansion of services provided to existing customers. The growth was partially offset by the sale of a majority of the operations of the Company's joint venture with Savills into the Asia-Pacific region (Trammell Crow Savills Asia-Pacific) and the termination of a contract in the fourth quarter of 2002.

The decrease in property management revenue was primarily the result of a reduction in square footage under management in 2003, in addition to the Company's sale of its mall management business to an affiliate of Faison Enterprises, Inc. (the Faison Sale) in the first quarter of 2002.

Brokerage revenue remained relatively flat from 2002 to 2003. However, revenues in the fourth quarter of 2003 were significantly ahead of the comparable period in the prior year. This is in part the result of an increase in the number of project leasing and investment sales brokers, as part of the Company's focus on expanding its brokerage network. In addition, the Company was successful in closing several significant transactions in the 2003 fourth quarter, driven by stabilization of the economy and decreasing reluctance on the part of customers to make new real estate commitments.

Construction management revenue is generated from services including space planning and tenant finish coordination for investor customers in conjunction with property management and leasing assignments, and is directly related to tenants' real estate demands. Revenues remained relatively flat from 2002 to 2003.

The decrease in development and construction revenue was primarily due to a \$5.9 million decrease in rental revenue from operating real estate properties, resulting from the sale of various operating properties that generated rental revenue in 2002. In addition, development and construction fees decreased due to the downturn in the economy, which has resulted in a decrease in the Company's development starts in recent years. Typically, the impact of decreases and increases in the Company's development starts is not reflected in results immediately and the Company experienced the consequences of reduced previous periods' starts in its development and construction revenues for 2003. These decreases in revenue were offset in 2003 by \$1.6 million of revenue relating to the Company's receipt of a distribution from a cost method investment. This distribution was the result of the disposition of the underlying real estate project.

The Company's gain on disposition of real estate decreased significantly in 2003 from 2002. In 2003, the Company sold 19 real estate projects for an aggregate net sales price of \$67.1 million, resulting in an aggregate gain on disposition of \$13.4 million, including recognition of deferred gain of \$0.3 million relating to a disposition in a previous period. In 2002, the Company sold 36 real estate projects for an aggregate net sales price of \$142.1 million, resulting in an aggregate gain on disposition of \$24.2 million, including recognition of deferred gain of \$0.9 million relating to dispositions in previous periods.

Some of the Company's development resources focus on providing development services to investor customers that invest in speculative commercial real estate projects. Since the latter part of 1999, speculative real estate development has declined significantly. The decline reflects the fact that demand for new product in many of the markets in which the Company operates has declined as vacancy rates have risen with the overall downturn in the economy. As a result, the Company has responded by shifting focus and resources to user-driven development areas such as development and construction activities for healthcare and higher education customers and fee development for corporate customers.

Costs and Expenses. Salaries, wages and benefits expense includes all compensation paid to Company employees other than brokerage commissions. As such, it includes salaries, benefits and annual incentive bonuses for employees whose compensation is reimbursed by customers (reimbursed employees); salaries, benefits and annual incentive bonuses for employees whose compensation is not so reimbursed (unreimbursed employees); and transaction-related incentive compensation other than brokerage commissions, primarily paid in connection with development and investment transactions. The decrease in 2003 was driven by a \$23.9 million decrease in salaries and benefits for unreimbursed employees offset by a \$3.3 million increase in salaries, wages and benefits for reimbursed employees. The decrease in unreimbursed salaries, wages and benefits is a result of the Company's continued efforts to control costs as part of the Company's cost reduction efforts undertaken beginning in the second quarter of 2001, in addition to a reduction in headcount resulting from the Faison Sale and wind-down of call center operations. These decreases in unreimbursed salaries, wages and benefits were partially offset by increases due to new hiring in 2003. The increase in reimbursed salaries, wages and benefits was driven by an increase in project management services provided to customers, offset by a reduction in headcount due to the wind-down of call center operations.

The increase in commission expense was primarily driven by the increase in the Company's corporate advisory services revenue, which was the result of an increase in headcount of tenant representation brokers and the closing of several significant transactions during 2003 as the economy began to stabilize in the second half of 2003.

The overall decrease in general and administrative expenses was comprised of a \$17.0 million decrease in costs that are not reimbursed by customers, offset by a \$3.8 million increase in out-of-pocket general and administrative expenses that are reimbursed by customers. The decrease in unreimbursed general and administrative expenses for 2003 is the result of a \$5.4 million decrease in pursuit cost expense, mainly due to a writeoff of capitalized pursuit costs in the second quarter of 2002 when negotiations on an international venture concluded unsuccessfully, as well as continuing efforts by the Company to control costs company-wide. In addition, costs were incurred in 2002 to restructure or exit outsourcing contracts that were unprofitable or otherwise judged likely to be unsuccessful in the long run. The overall decrease in general and administrative expenses in 2003 was partially offset by \$5.9 million of writedowns on real estate due to impairment and provisions to reflect real estate held for sale assets at fair value less cost to sell recorded in 2003 as compared to \$2.4 million of such writedowns and provisions in 2002.

Depreciation and amortization expenses decreased because certain non-compete agreements became fully amortized in 2002 and certain assets related to computer hardware became fully depreciated during 2003 and therefore were not depreciated for a full year in 2003. This was offset by an increase in depreciation expense related to real estate assets classified as held for investment, in accordance with FAS 144.

The decrease in interest expense is primarily the result of the dispositions in late 2002 of several operational real estate projects that incurred interest expense in 2002. Also, during 2003, the Company had lower average outstanding balances on its revolving line of credit.

Income from Continuing Operations Before Income Taxes, Minority Interest and Income from Investments in Unconsolidated Subsidiaries. The Company's income from continuing operations before income taxes,

minority interest and income from investments in unconsolidated subsidiaries remained flat due to the fluctuations in revenues and expenses described above.

Minority Interest, Net of Income Taxes. The decrease in minority interest income, net of income taxes, is primarily a result of decreased losses in 2003 in the Company's consolidated international entities in which outside parties have an interest. This decrease was partially offset by an increase in minority interest income, net of income taxes, due to larger 2003 losses in certain consolidated real estate entities driven by 2003 charges for impairment of real estate.

Income from Investments in Unconsolidated Subsidiaries, Net of Income Taxes. Income from investments in unconsolidated subsidiaries fluctuates from period to period based on the volume and profitability of transactions carried out by the underlying unconsolidated subsidiaries. The Company's share of income from such transactions is typically driven by its ownership percentage in the unconsolidated subsidiaries. The 2003 increase in income from unconsolidated subsidiaries was primarily driven by significant real estate sales by certain unconsolidated subsidiaries and increased income from the 10% investment that the Company owns in Savills, which it acquired upon initial formation of its strategic alliance with Savills.

Income from Continuing Operations. The Company's income from continuing operations in 2003 increased from the comparable period in the prior year, due to the fluctuations in revenues and expenses described above.

Income from Discontinued Operations, Net of Income Taxes. Income from discontinued operations includes the operations of real estate properties and gain on disposition of real estate properties held for sale or sold subsequent to the adoption of FAS 144 effective January 1, 2002, that were considered components of an entity under FAS 144 and in which the Company retained or expects to retain no continuing involvement. Dispositions of real estate assets have been and will continue to be a significant part of the Company's activities and, as a result of applying the provisions of FAS 144, the Company expects a greater amount of these activities to be classified as discontinued operations in future periods as fewer asset dispositions will qualify for grandfathered treatment under FAS 144. In 2003, the Company sold four real estate projects that were considered discontinued operations for an aggregate net sales price of \$25.1 million. These sales resulted in an aggregate gain on disposition of real estate (before income taxes) of \$5.3 million. In 2002, the Company sold four real estate projects with a gain on disposition of real estate (before income taxes) of \$6.6 million for an aggregate net sales price of \$31.2 million.

Net Income. Net income increased due to the fluctuations in revenues and expenses described above, in addition to a decrease in the Company's effective tax rate driven by the increase in the Company's income from its investment in Savills.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

	For the Years Ended December 31, 2002	2001	\$ Change	% Change
REVENUES:	(\$ in millions)			
<i>User Services:</i>				
Facilities management	\$			