

TRAMMELL CROW CO
Form 10-K
March 15, 2006

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, 2005

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)

75-2721454
(IRS Employer
Identification Number)

75201
(Zip Code)

(214) 863-3000

(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

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

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

None

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(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates on June 30, 2005, was \$785,691,072, based on the closing price of the registrant's common stock, \$24.24 per share, reported on the New York Stock Exchange on June 30, 2005.

There were 36,286,893 shares of the registrant's common stock outstanding as of March 1, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be furnished to stockholders in connection with its 2006 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), founded in 1948 by Mr. Trammell Crow, is one of the largest diversified commercial real estate service companies in the world. The Company delivers brokerage, project management and building management services through its Global Services group and undertakes development and investment activities through its Development and Investment group. The operations of each group are reported as separate segments.

The Company serves two different types of clients:

- **User clients.** These clients include large corporations, healthcare systems, public sector clients and other end users that occupy commercial property in connection with their business operations.
- **Investor clients.** These clients include pension funds, advisors and others who own or manage real estate assets primarily for investment purposes.

Global Services

The Company's Global Services group creates value for clients by applying knowledge, people, resources, processes and technology in a manner designed to enhance asset productivity consistent with clients' strategic objectives. The Global Services group's approximately 6,200 employees provide strategic support in areas such as organizational, portfolio and operational optimization with regard to the management of real estate and related services.

User Client Services

The goal of the Company's user services business is to align the facilities and support functions of its clients with their operational and strategic business objectives. 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 seeks to enter into multi-year, multi-service outsourcing contracts with its user clients, but also provides services on a one-off assignment or short-term contract basis. Of the contracts with user clients that were up for renewal in 2005, the Company lost less than 1% of the aggregate gross margin generated by those contracts due to the clients' decisions not to renew. Services provided to user clients by the Company's Global Services group are:

- **Corporate Advisory Services.** Brokerage and brokerage-related services provided to user clients are referred to as corporate advisory services and include primarily tenant representation brokerage services, as well as other transaction or portfolio services such as acquisition/disposition brokerage, lease administration and lease audits. These services may be provided on a portfolio basis to a user client that has outsourced its transaction or portfolio requirements to the Company or on an individual transaction basis to a non-outsourcing client. Revenues are derived primarily from commissions based on the value of the underlying real estate transaction (i.e., rental revenues or sales price).
- **Project Management.** Project management services provided to user clients include facility planning, construction oversight, space planning, site consolidations, multi-location expansion programs, facilities design, signage conversions, portfolio-wide operational refits and upgrades, and workplace moves, adds, and changes. Project management services for user clients are typically provided on a portfolio-wide or programmatic basis. Revenues include fixed management fees, variable fees (based on an hourly rate, a percentage of project costs, square footage, etc.) and

incentive fees if certain agreed-upon performance targets are met. Revenues may also include reimbursement of payroll and related costs for personnel providing the services.

- **Facilities Management.** Building management services provided to user clients are typically referred to as facilities management and include administration and day-to-day operation, maintenance and repair of client-occupied facilities; office services; and call center services. The Company identifies best practices, implements technology solutions and leverages its resources to control clients' facilities costs and enhance the workplace environment. Contracts for facilities management services are typically structured so the Company receives reimbursement of client-dedicated personnel costs and associated overhead expenses plus a monthly base fee and, in some cases, annual incentives if certain agreed-upon performance targets are satisfied.

Investor Client Services

The Company provides services to investor clients through an extensive network of real estate experts in major markets throughout the United States. These local office delivery teams are supported by a national accounts team whose function is to help insure quality service and to maintain and expand relationships with large institutional clients, including buyers, sellers and landlords who need to lease, buy, sell and/or finance space. Services provided to investor clients by the Company's Global Services group are:

- **Brokerage.** Brokerage services provided to investor clients include project leasing and capital markets (investment sales and capital sourcing) services. Project leasing revenues are derived from the renewal and expansion of tenants and leasing of vacant space in investor-owned properties for which the Company has been engaged as the owner's leasing agent. Fees for capital markets services are generated by representing buyers and sellers in connection with the sale and/or financing of office, industrial and retail space, and land, as well as hotels and multi-family housing. Fees received by the Company for brokerage services are typically based on a percentage of the value of the lease or sale transaction.

- **Construction Management.** Project management services provided to investor clients are referred to as construction management and primarily include space planning and tenant finish coordination for investor clients, typically in conjunction with property management and leasing assignments. Fees are generally calculated as a percentage of project cost.

- **Property Management.** Building management services provided to investor clients are typically referred to as property management, and include all aspects of building operations, maintenance and repair, tenant relations and oversight of building improvement processes. The Company typically receives monthly management fees for the property management services it provides, based upon a specified percentage of the monthly rental income or rental receipts generated from the property under management, or in certain cases, the greater of such percentage fee or a minimum agreed-upon fee. 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.

The Company's property management and leasing agreements with investor clients typically provide for an indefinite term but permit the client to terminate the agreement without cause upon 30 days prior written notice. While these customary termination provisions lend flexibility to the owner of the property, generally the Company retains its property management and leasing assignments for multiple years.

International Service Delivery

Global Services clients are served through a network of offices in the United States, Canada, Europe, Asia-Pacific and Latin/South America. Operations outside of the United States are primarily focused on

the provision of services to user clients, which generally include U.S.-based multi-nationals who have outsourced their services requirements to the Company on a portfolio basis.

The Company's international service delivery is enhanced by its affiliations and alliances with:

- **Savills plc**, a leading property services company based in the United Kingdom with operations throughout Europe and Asia. Savills is listed on the London Stock Exchange and is 19.6%-owned by the Company. The Company has had a strategic alliance with Savills dating to July 2000 and utilizes Savills throughout Europe and Asia-Pacific to execute brokerage transactions on behalf of the Company's user clients. Two of the Company's executives serve on Savills' Board of Directors.
- **Trammell Crow Meghraj**, a leading property services company in India. Trammell Crow Meghraj is jointly owned by the Company and certain international partners and is the vehicle through which the Company provides all brokerage, project management and building management services in India.
- **JJ Barnicke**, a leading Canadian real estate services provider. The Company utilizes JJ Barnicke to provide brokerage services for the Company's user clients with Canadian requirements.

Development and Investment

The Company conducts real estate development and investment activities primarily through its Development and Investment group, which includes approximately 240 employees. The group provides development services to users and pursues opportunistic but risk-mitigated development and investment in commercial real estate across a wide spectrum of product types, including industrial, office and retail properties; healthcare facilities of all types (medical office buildings, hospitals and ambulatory surgery centers); higher education facilities, including student housing; and residential/mixed-use projects. The Company acts as the general manager of the development process, providing services that are vital in all stages of the process, including: (i) site identification, due diligence and acquisition; (ii) evaluating project feasibility, budgeting, scheduling and cash flow analysis; (iii) procurement of approvals and permits, including zoning and other entitlements; (iv) project finance advisory services; (v) coordination of project design and engineering; (vi) construction bidding and management and tenant finish coordination; and (vii) project close-out and tenant move coordination.

The Company's network of development and investment talent, access to capital, local market knowledge (attained in part through brokers and other employees in the Global Services group) and brand name give it the capability to source and implement a significant volume of real estate development and investment activity. Experienced local market development teams pursue opportunities in their markets supported, where applicable, by national expertise in certain product types (initiatives), such as healthcare, higher education, acquisitions, on-airport distribution and residential/mixed-use. Deal approval and risk mitigation are centralized. Funds and programs with capital partners generally targeted at specific types of products or opportunities enhance the efficiency of local development teams by providing focus to their efforts and pre-arranged capital for their sourced opportunities (including pre-negotiated transaction terms and documents).

The Company may pursue development and investment activity on behalf of its user and investor clients (with no ownership), in partnership with its clients (through co-investment either on an individual project basis or through a fund or program) or for its own account (100% Company ownership). Development activity in which the Company has an ownership interest is conducted through Company subsidiaries which are consolidated or unconsolidated for financial reporting purposes depending primarily on the extent and nature of the Company's ownership interest.

Development and investment revenues include fees primarily from development and construction services (including incentive fees) and gains on disposition of real estate. Development and Investment

segment income is also generated from operation and/or disposition of projects held in unconsolidated subsidiaries and from the operation and/or disposition of real estate classified as discontinued operations (in general, where the Company will not have significant continuing involvement with the project after sale). The impact of project sales accounted for as income from unconsolidated subsidiaries or as income from discontinued operations is a regular part of, and contributes significantly to, Development and Investment segment results.

Fees for development services are typically based on a negotiated percentage of a project's budgeted development and construction cost. Incentive bonuses may be received for completing a project under budget and within certain critical time deadlines. The Company also seeks to leverage the value creation (deal sourcing and execution) capabilities of its national network of development talent to negotiate other compensation arrangements incentive fees and promote structures that allow the Company to participate in the investment returns on projects it develops for its investor clients.

Through approximately 1990, the Company focused its commercial real estate development business on office, industrial and retail projects primarily for investor clients. Since that time, the Company has expanded its focus to include other types of commercial development and development for user clients. National initiative teams source opportunities with both user and investor clients in healthcare, higher education, on-airport distribution and residential/mixed-use development, and initiative personnel support local development teams in their development of the resulting projects. By expanding its focus to include development for user clients and in these initiatives, particularly those in the healthcare sector, the Company seeks to mitigate the cyclical nature traditionally inherent in the commercial development business.

The Development and Investment group also maintains an initiative team focused on acquisitions of existing properties, primarily those with opportunities to add value through re-development or re-leasing. To facilitate the Company's pursuit of opportunistic development and investment, including acquisitions, the Company has established a series of discretionary development and investment funds (Trammell Crow Investment Funds I through V). Through December 31, 2005, aggregate capital contributions and remaining unfunded commitments to the funds totaled \$138.6 million, sourced \$90.9 million from unrelated parties, \$8.1 million from current or former employees of the Company and \$39.6 million from the Company. Of the total funding contributions and commitments, \$115.3 million had been invested through December 31, 2005, in projects with an aggregate project or acquisition cost of approximately \$996.8 million. Of those projects, projects with total costs of \$501.0 million had been sold through December 31, 2005. The Company intends to establish a sixth discretionary development and investment fund in 2006, targeting funding commitments greater than any of the previous five funds.

In order to increase the focus and efficiency of its development teams and in an effort to build and ultimately realize portfolio value for developed and acquired projects (to the extent of its participation), the Company seeks to channel a large part of its development and investment activity into programs with capital partners, including those described below:

- **ING Clarion Industrial Program.** During 2004, the Company established an industrial development program with ING Clarion. The Company co-invests in the program, which is initially targeting up to \$500 million of product with a focus on the development, aggregation and sale of new bulk warehouse distribution centers in major markets throughout the United States. The program is structured as a joint venture with the Company sourcing projects and providing development services for projects initiated by the program and ING Clarion providing the advisory, asset management and credit support to the underlying projects. None of the debt related to the projects is recourse to the Company. Since its inception, the program has acquired or contracted to acquire land to develop projects with aggregate budgeted project costs of approximately \$473.3 million.

- **Partners Health Trust.** Partners Health Trust is the brand used by the Company to establish funds to carry out programmatic development and investment activity related to the Company's healthcare initiatives. Under this brand, the Company has established a fund with a prominent state retirement system. The fund's purpose is to acquire primarily on-campus medical office buildings from leading not-for-profit healthcare systems around the country or from the Company's subsidiaries that have developed medical office buildings for these systems. In 2005, the fund acquired eight medical office buildings and purchased partnership interests in two other buildings for an aggregate cost of approximately \$112.0 million.
- **Other Funds and Programs.** The Company is actively pursuing the establishment of funds and programs for other product types.

Segment Financial Information

Financial information about the Global Services and Development and Investment segments is contained in *Item 8. Financial Statements and Supplementary Data, Note 21.*

Competitive Advantages

The Company believes that it possesses numerous competitive advantages, including:

- **Comprehensive Service Offerings.** The Company provides a comprehensive set of commercial real estate services and is a leading provider in each of its four core services: brokerage, project management, building management and development and investment. This enables the Company to provide single source solutions for clients with multi-service requirements and enables the Company to grow its business with clients who may begin their relationship with the Company with a single service requirement.
- **Scale and Geographic Reach.** The Company's scale and geographic reach and the infrastructure in place to support them position it well to handle existing and potential clients' multi-service, multi-location, geographically dispersed requirements. At December 31, 2005:
 - The Company managed and/or leased approximately 548 million square feet of space for its user and investor customers, including over 210 million square feet of user customer facilities at over 29,000 locations;
 - The Company's approximately 6,700 employees included 670 brokers and 800 project managers;
 - Supplementing the Company's network of full service offices throughout the United States, were (i) Company employees resident in 20 countries around the globe focused on serving the brokerage, project management and building management needs of its user clients in over 60 countries and (ii) alliance partners with operations throughout Europe, Asia-Pacific and Canada with over 15,000 employees, including approximately 1,000 brokers; and
 - The Company had nearly \$3.6 billion in development in process.
- **Client Base.** The Company's existing clients include some of the world's largest corporations and leading investors with sizeable portfolios of commercial real estate and complex requirements, providing the Company with strong organic growth potential.
- **Development Capability.** The Company's development capability is a product of its heritage and is unrivaled among its commercial real estate services competitors. The Development and Investment segment is a significant contributor to Company profits with an attractive risk/reward profile. Investor clients value highly the access to product and value added returns created by the Company.

- **Brand.** The Trammell Crow Company brand dates to 1948, and the Company believes that it is highly regarded and a significant asset in winning new business.
- **Management/Personnel.** The Company's 10-member Executive Committee has an average Company tenure of more than 18 years, providing experienced leadership with perspective across changing operating environments.

Long-Term Growth Strategy

The Company's long-term growth strategy is to build upon its competitive advantages and demonstrable industry trends to:

- **Capitalize on Outsourcing Opportunity.** The commercial real estate-related outsourcing business remains a significant growth opportunity well suited to the Company's full service capabilities. As an outsourcing industry leader, the Company will continue to focus its resources on adding new clients and expanding its substantial relationships with existing outsourcing clients on both a domestic and global basis. The Company's focus on integrated delivery, its status as a leading provider in each of its service lines and its growing international capability position the Company well to meet user clients' complex requirements.
- **Enhance Brokerage Capability.** The Company has committed significant resources to enhance its brokerage capability and continues to develop a highly competitive brokerage business. The Company is focused on growing its brokerage headcount, expanding all lines of brokerage geographically and broadening the expertise within each line. The Company's significant portfolio of user and investor client relationships is an asset that serves it well in its efforts in this regard.
- **Leverage Development Network with Funds, Programs and Initiatives.** In order to bring further focus and efficiencies to its development business (and thereby facilitate increased levels of activity), the Company seeks to establish funds and programs with capital partners and to channel increasing amounts of development and investment activity into those funds and programs. In addition, the Company seeks to leverage its development field network with national initiative teams focused on particular product types.
- **Expand Business with Healthcare Customers.** The Company is focused on delivering customized real estate solutions to leading hospitals, HMOs and healthcare organizations across the country through a dedicated national team of healthcare industry specialists who work with local teams to secure and deliver these services. The Company believes that the healthcare industry is less cyclical than the overall economy and thus believes it can partially mitigate the cyclicity traditionally inherent in the commercial real estate development business by focusing on healthcare-related development.
- **Expand Geographically.** The Company is committed to further expanding its geographic reach both domestically and internationally by continuing to add resources outside the United States and to expand the depth and breadth of its service offerings, both organically and through investments in and relationships with strategic alliance partners. The combination of new investments, business expansion, and focus on global customer solutions will drive the Company's international business expansion.
- **Provide Consistent Quality Service.** Overlaying the five preceding growth strategies is the Company's focus on providing uniform product quality and service delivery across all its markets. The Company also seeks continuous improvement in its back office infrastructure capabilities, including information technology, accounting and human resources in support of both internal and client activity. The Company has aimed substantial resources at these areas in recent years and has

reorganized each to make it more effective. The Company believes that continued progress in this regard will create further growth opportunities.

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, in-house corporate real estate departments and developers. 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 in a particular local or regional market. 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., Grubb & Ellis and national, regional and local developers. 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 clients. 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 remain 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

Management believes its relations with employees are good. Employees of the Company at certain properties are currently represented by labor unions.

Geographic Areas

The Company participates in the commercial real estate business outside the United States both directly through wholly-owned subsidiaries and indirectly through its equity ownership in certain of its alliance partners. The Company's revenues generated from domestic operations represent approximately 97%, 96% and 96% of its total revenues in each of 2003, 2004 and 2005, respectively. Revenues derived from various foreign operations comprised approximately 3%, 4% and 4% of the Company's total revenues in each of 2003, 2004 and 2005, respectively. The Company's share of the profits of Savills and Trammell Crow Meghraj flows through the Company's income statement as income from unconsolidated subsidiaries, not as revenues. The Company's Global Services segment generated income before income taxes outside of the United States of approximately 16%, 13% and 14% of total Global Services income before income taxes in each of 2003, 2004 and 2005, respectively. Approximately 91%, 91% and 79% of the Company's long-lived assets at December 31, 2003, 2004 and 2005, respectively, relate to the Company's domestic operations, with the remaining portion of its long-lived assets relating to various foreign operations.

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. In the event of a substantial loss, the Company's insurance might not be sufficient to pay the full value of the damages suffered by the Company. The Company's management evaluates insurance coverage on an ongoing basis.

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 *Risk Factors Trade Name License* for additional information.

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 may include licensing procedures, prescribed professional 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.

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 1A. 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 the Company 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 Cyclicity. 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. The commercial real estate market is cyclical and depends on the perceptions of real estate users and investors as to general economic conditions. Transaction volumes, rental rates, occupancy levels and sales prices are influenced by economic conditions and changes in such conditions could have a negative impact on the Company's revenues.

Because the Company's investment strategy typically entails making relatively modest investments alongside its investor clients, its ability to conduct these activities depends in part on the supply of investment capital for commercial real estate and related assets. Changes in market perceptions or other

economic factors may lead to decreased availability of such capital, which could adversely impact the Company's development and investment strategy. 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 or by impairment charges or reduced profitability related to declines in real estate values.

Building occupancies and rental rates typically decline in an economic downturn. 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 or the Company could experience reduced profitability related to declines in real estate values.

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, 2005, the Company had 41 consolidated real estate projects with invested equity of \$72.3 million and \$18.6 million of notes payable on real estate that are recourse to the Company (beyond being recourse to the single-purpose entity that holds the real estate asset and is the primary obligor on the note payable). The estimated aggregate project cost of these consolidated real estate projects is \$680.1 million. In addition, at December 31, 2005, the Company was involved as a principal (in most cases, co-investing with one of its clients) in 43 unconsolidated real estate subsidiaries in which the Company had invested \$44.5 million and had committed additional capital to these unconsolidated subsidiaries of \$14.5 million. The Company also guaranteed notes payable of these unconsolidated subsidiaries of \$7.1 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. In many cases, the Company has limited control over the timing of the disposition of these investments and the recognition of any related gain or loss.

Recruiting and Retention of Qualified Personnel. The Company's continued success is highly dependent on 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, including 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 also impact its ability to retain personnel.

Reliance on Major Clients and Contract Retention. A relatively small number of the Company's clients generate a significant portion of its revenues. The Company's ten largest clients accounted for approximately 30% of its total revenues in 2005, including one client (Bank of America Technology and Operations, Inc., which primarily receives services from the Company's Global Services segment) that accounted for 13% of the Company's total revenues. The loss of one or more of its major clients could have a material adverse effect on the Company's business.

In 2005, revenue from property management and from user clients with whom the Company has outsourcing contracts constituted approximately 15% and 47%, respectively, of the Company's total revenues. The Company's property management contracts can generally be cancelled upon 30 to 60 days notice by the client. Its outsourcing services contracts are typically for multi-year terms with options to renew and may include provisions giving the customer certain early termination rights. Accordingly, contracts representing a significant percentage of the Company's revenues may be terminated or may

expire in any given 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 clients. 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.

Business 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 or impairment of any acquired intangible assets; and
- maintaining uniform standards, controls, procedures and policies.

In addition, the acquired business's clients could cease to do business with the Company. Potential conflicts between the Company's clients 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, multi-national 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
- acts of terror, 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 clients tend to close transactions toward the end of their fiscal years (typically the calendar year). This causes the Company to earn a

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significant portion of its revenues under transaction-oriented service contracts or real estate transactions in the fourth quarter.

In addition, a growing portion of the Company's outsourcing contracts provide for bonus payments upon achieving 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, in-house corporate real estate departments and developers. The adverse consequences of intense competition may include loss of clients 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. If this trend continues, it could shrink the asset base available to be managed by third party service providers and decrease the demand for the Company's services, thereby significantly increasing 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 2006, 2007 and 2008. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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 expires on December 31, 2009.

ITEM 3. LEGAL PROCEEDINGS

The Company and one of its subsidiaries were named defendants in a lawsuit styled *Bank One Oklahoma, N.A., et al. (the Bank) v. Trammell Crow Services, Inc. and Trammell Crow Company*, No. 03 C 3624, filed in the U.S. District Court for the Northern District of Illinois on April 2, 2003. On January 25, 2006, the Company and the Bank resolved the lawsuit between them. The claims filed by each party have been dismissed.

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, 2005.

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, 2006, 36,286,893 shares were held by approximately 2,349 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
2004		
First Quarter	\$ 14.52	\$ 13.25
Second Quarter	\$ 14.30	\$ 12.25
Third Quarter	\$ 16.20	\$ 12.51
Fourth Quarter	\$ 18.51	\$ 14.86
2005		
First Quarter	\$ 21.19	\$ 15.83
Second Quarter	\$ 26.91	\$ 20.32
Third Quarter	\$ 27.88	\$ 23.32
Fourth Quarter	\$ 27.16	\$ 23.05

The Company has not paid dividends in the last two fiscal years 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*.

The Company did not repurchase any shares in the fourth quarter of 2005.

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 and Related Stockholder Matters*.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data set forth below have been derived from the audited consolidated financial statements of the Company. 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 March 31, June 30 and September 30, 2005, and the years ended December 31, 2004, 2003 and 2002, have been reclassified to conform to the presentation for the quarter ended December 31, 2005. 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 Operations Income from Discontinued Operations, Net of Income Taxes*, for additional information.

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	Years Ended December 31,				
	2001	2002	2003	2004	2005
	(in thousands, except share and per share data)				
Statement of Operations Data:					
REVENUES					
<i>User Services:</i>					
Facilities management	\$ 201,573	\$ 233,756	\$ 208,936	\$ 211,062	\$ 237,659
Corporate advisory services	115,599	108,414	123,335	143,266	186,847
Project management services	52,973	58,134	65,500	91,599	118,678
	370,145	400,304	397,771	445,927	543,184
<i>Investor Services:</i>					
Property management	174,279	147,613	143,727	137,193	136,665
Brokerage	115,463	95,657	95,593	114,478	138,416
Construction management	13,082	10,006	10,736	11,187	11,973
	302,824	253,276	250,056	262,858	287,054
Development and construction	76,630	55,112	43,203	38,346	47,159
	749,599	708,692	691,030	747,131	877,397
Gain on disposition of real estate	28,456	23,129	13,199	26,742	18,553
TOTAL REVENUES	778,055	731,821	704,229	773,873	895,950
COSTS AND EXPENSES					
Salaries, wages and benefits	477,628	472,810	452,195	493,404	553,552
Commissions	94,655	87,396	98,957	120,345	151,721
General and administrative	138,308	133,741	116,434	127,758	140,618
Depreciation	15,811	15,236	14,704	9,985	9,257
Amortization	8,164	2,579	1,856	1,359	738
Interest	15,057	10,219	5,953	4,195	5,441
Writedowns due to impairment of goodwill, intangibles and investments	31,968				
Change in fair value of interest rate swap agreement	4,809				
Restructuring charges	10,952				
TOTAL EXPENSES	797,352	721,981	690,099	757,046	861,327
Operating income (loss)	(19,297)	9,840	14,130	16,827	34,623
Interest and other income	1,596	1,186	2,236	2,797	2,835
Income (loss) from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	(17,701)	11,026	16,366	19,624	37,458
Income tax (expense) benefit	5,893	(4,915)	(6,636)	(7,452)	(13,856)
Minority interest, net of income tax	880	1,619	1,231	(3,006)	2,528
Income from investments in unconsolidated subsidiaries, net of income tax expense	5,717	4,961	9,839	10,971	15,154
Income (loss) from continuing operations	(5,211)	12,691	20,800	20,137	41,284
Income from discontinued operations, net of income tax (1)		3,962	240	18,982	18,123
Net income (loss)	\$ (5,211)	\$ 16,653	\$ 21,040	\$ 39,119	\$ 59,407
Income (loss) per share from continuing operations:					
Basic	\$ (0.15)	\$ 0.36	\$ 0.58	\$ 0.58	\$ 1.22
Diluted (2)	\$ (0.15)	\$ 0.34	\$ 0.56	\$ 0.54	\$ 1.13
Income per share from discontinued operations, net of income taxes:					
Basic	\$	\$ 0.11	\$ 0.01	\$ 0.54	\$ 0.54
Diluted	\$	\$ 0.11	\$ 0.01	\$ 0.51	\$ 0.50
Net income (loss) per share:					
Basic	\$ (0.15)	\$ 0.47	\$ 0.59	\$ 1.12	\$ 1.76

	Years Ended December 31,				
	2001	2002	2003	2004	2005
	(in thousands, except share and per share data)				
Statement of Operations Data					
(Continued):					
Diluted (2)	\$ (0.15)	\$ 0.45	\$ 0.57	\$ 1.05	\$ 1.63
Weighted-average common shares outstanding:					
Basic	35,356,710	35,741,754	35,572,493	35,064,453	33,786,147
Diluted (2)	35,356,710	36,797,012	36,780,515	37,239,801	36,440,940
Other Data:					
Calculation of EBITDA(3) and EBITDA, as adjusted(4) (unaudited):					
Net income (loss)	\$ (5,211)	\$ 16,653	\$ 21,040	\$ 39,119	\$ 59,407
Income tax expense (benefit)(5)	(926)	13,391	14,350	23,954	34,880
Depreciation(6)	15,811	15,236	15,001	10,210	9,574
Amortization(7)	8,164	2,593	1,995	1,394	1,053
Interest expense(8)	15,057	10,346	7,369	4,830	7,344
EBITDA(3) (unaudited)	32,895	58,219	59,755	79,507	112,258
Writedowns due to impairment of goodwill, intangibles, and investments	31,968				
Minority interest related to goodwill writedown, before income taxes	(2,346)				
Change in fair value of interest rate swap agreement	4,809				
Restructuring charges	10,952				
EBITDA, as adjusted(4) (unaudited)	\$ 78,278	\$ 58,219	\$ 59,755	\$ 79,507	\$ 112,258
Net cash provided by (used in) operating activities	29,626	72,798	50,709	94,448	(3,010)
Net cash provided by (used in) investing activities	(8,662)	3,762	1,962	(37,112)	(114,805)
Net cash provided by (used in) financing activities	(38,542)	(36,614)	(25,060)	685	31,097
Balance Sheet Data:					
Cash and cash equivalents	\$ 38,059	\$ 78,005	\$ 105,616	\$ 163,637	\$ 76,919
Total assets	692,262	622,066	630,126	748,950	948,167
Long-term debt (excluding notes payable on real estate) and capital lease obligations	62,013	22,717	13,106	377	36,336
Notes payable on real estate(9)	158,226	113,807	103,266	149,704	256,158
Total liabilities	377,565	273,841	273,601	363,244	517,168
Minority interest	28,574	39,871	28,896	44,756	29,528
Stockholders' equity	286,123	308,354	327,629	340,950	401,471

(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, in which the Company retained or expects to retain no continuing involvement, determined 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 significant amount of these activities to continue to be classified as discontinued operations.

(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 United States generally accepted accounting principles (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 2001 write down 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. No similar items have occurred since 2001, and Management believes 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) Depreciation includes \$297, \$225 and \$317 related to discontinued operations for the years ended December 31, 2003, 2004 and 2005, respectively.

(7) Amortization includes \$14, \$139, \$35 and \$315 related to discontinued operations for the years ended December 31, 2002, 2003, 2004 and 2005, respectively.

(8) Interest expense includes \$127, \$1,416, \$635 and \$1,903 related to discontinued operations for the years ended December 31, 2002, 2003, 2004 and 2005, respectively.

(9) 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 pursuant to service contracts and variable transaction-oriented payments for services provided to both user and investor clients. Revenues for corporate advisory services provided to user clients are derived primarily from commissions based on the value of the underlying real estate transaction (i.e., rental revenues or sales price). Project management revenues from user clients include fixed management fees, variable fees (based on an hourly rate, a percentage of project costs, square footage, etc.) and incentive fees if certain agreed-upon performance targets are met. Revenues may also include reimbursement of payroll and related costs for personnel providing the services. Contracts for facilities management services are typically structured so the Company receives reimbursement of client-dedicated personnel costs and associated overhead expenses plus a monthly base fee and, in some cases, annual incentives if certain agreed upon performance targets are satisfied. Brokerage revenues generated from investor clients include commissions based on a percentage of the value of the lease for project leasing services and the value of the sale transaction for capital markets services. Fees for construction management services provided to investor clients are generally calculated as a percentage of project cost. Property management revenues are derived from monthly management fees, generally based upon a specified percentage of the monthly rental income or rental receipts generated from the property under management, or in certain cases, the greater of such percentage fee or a minimum agreed-upon fee. The Company may also 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.

The Company's Development and Investment revenue streams consist primarily of payments related to 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 budgeted development and investment cost, and incentive development fees for completing a development project under budget, within certain critical time deadlines and/or for achieving specified leasing targets and value creation. Income from the Company's investment activities primarily consists of gains on disposition of real estate and income from unconsolidated subsidiaries that hold real estate assets. Compensation arrangements, including incentives fees and promote structures, allow the Company to participate in the investment returns on projects it develops for its investor clients. Dispositions of real estate in which the Company has no significant continuing involvement in the operations of the asset after its disposition are reported as discontinued operations in accordance with FAS 144. 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 certain 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 often entails making relatively modest investments alongside its investor clients, its ability to conduct these activities depends in part on the supply of investment capital for commercial real estate and related assets.

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 67% of the Company's net income was 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 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 income 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 consolidated financial statements include the accounts of the Company, variable interest entities (VIEs) in which the Company is the primary beneficiary and other subsidiaries over which the Company has control.

Variable Interest Entities

The Company's determination of the appropriate accounting method with respect to its variable interests, including co-investments with its clients, is based on Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R). The Company consolidates any VIE of which the Company is the primary beneficiary and discloses significant variable interests in VIEs of which the Company is not the primary beneficiary.

The Company determines if an entity is a VIE under FIN 46R 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. The Company makes judgments regarding the sufficiency of the equity at risk based first on a qualitative analysis, then a 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 consolidates the entity as the primary beneficiary. This determination of whether the Company is the primary beneficiary includes any impact of an upside economic interest in the form of a promote that the Company may have. A promote is an interest built into the distribution structure of the entity based on the entity's achievement of certain return hurdles.

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.

Limited Partnerships, Limited Liability Companies and Other Subsidiaries

The Company's determination of the appropriate accounting method with respect to its investments in limited partnerships, limited liability companies and other subsidiaries is based on control. For the Company's general partner interests, the Company is presumed to control (and therefore consolidates) the entity, unless the other limited partners have substantive rights that overcome this presumption of control.

These substantive rights allow the limited partners to participate in significant decisions made in the ordinary course of the entity's business. The Company accounts for its non-controlling general partner investments in these entities under the equity method. This treatment also applies to the Company's managing member interests in limited liability companies. See *New Accounting Pronouncements* below for additional discussion of EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5) regarding the Company's general partner interests.

The Company's determination of the appropriate accounting method for all other investments in subsidiaries is based on the amount of influence the Company has (including its ownership interest) in the underlying entity. Those other investments where the Company has the ability to exercise significant influence (but not control) over operating and financial policies of such subsidiaries (including certain subsidiaries where the Company has less than 20% ownership) are accounted for using the equity method. All remaining investments of the Company are accounted for using the cost method.

The Company's determination of the appropriate accounting treatment for an investment in a subsidiary requires judgment of several factors, including the size and nature of the Company's ownership interest and the other owners' substantive rights to make decisions for the entity. If the Company were to make different judgments or conclusions as to the level of its control or influence, it could result in a different accounting treatment. Accounting for an investment as either consolidated or using the equity method generally would have no impact on the Company's net income or stockholders' equity in any accounting period, but a different treatment would impact individual income statement and balance sheet items, as consolidation would effectively gross up the Company's income statement and balance sheet. If the Company's evaluation of an investment accounted for using the cost method was 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, 2005, \$2.2 million of the Company's \$175.4 million total investment in unconsolidated subsidiaries related to investments that are accounted for using the cost method. Accounting for an investment using 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 other-than-temporary losses of value.

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.

The Company's various revenue recognition policies are consistent with these criteria. The judgments involved in revenue recognition are 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 revenues of the Company's business that are subject to the most judgment are its brokerage commission revenues, incentive-based management and development fees and gains on disposition of real estate (see *Real Estate*, below for additional discussion).

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 client. The portion of commissions that is subject to contingencies is recognized as revenue when such contingencies are 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 Company earns incentive development and management fees from its development services and certain services provided to user clients 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, client 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 clients. Certain incentive development fees allow the Company to share in the fair value of the developed real estate asset above cost. This sharing creates additional revenue potential to the Company with no exposure to loss other than opportunity cost. 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. The unique nature and complexity of each incentive fee require the Company to use varying levels of judgment in determining timing of revenue recognition.

Real Estate

As of December 31, 2005, the value of the Company's total real estate assets was \$357.6 million (37.7% of total assets). The significant accounting policies and estimates with regard to the Company's real estate assets relate to classification and impairment evaluation, cost capitalization and allocation, dispositions of real estate and discontinued operations.

Classification and Impairment Evaluation

With respect to the Company's real estate assets, FAS 144 establishes criteria to classify an asset as held for sale. 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 recorded individually at the lower of its fair value at the date of the reclassification or 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.

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. Determining an asset's fair value and the related allowance to record requires the Company to utilize judgment and estimates.

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. This determination of fair value and the amount, if any, of the impairment loss, requires the Company to utilize judgments and estimates. 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 considering 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.

Cost Capitalization and Allocation

When acquiring, developing and constructing real estate assets, the Company capitalizes costs in accordance with Statement of Financial Accounting Standards No. 67, *Accounting for Costs and the Initial Rental Operations of Real Estate Properties* (FAS 67). Capitalization begins when the Company has determined that activities related to development have begun and ceases when activities are complete, which are timing decisions that require judgment. Costs capitalized under FAS 67 include pursuit costs, or pre-acquisition/pre-construction costs, taxes and insurance, development and construction costs and costs of incidental operations. Pursuit costs capitalized in connection with a potential development project that the Company has determined based on its judgment not to pursue are written off in the period that such determination is made. A difference in the timing of when this determination is made could cause the pursuit costs to be expensed in a different period.

The Company often purchases bulk land that it intends to sell or develop in phases. The land basis allocated to each phase is based on the relative estimated fair value of the phases before construction. The Company allocates construction costs incurred relating to more than one phase between the various phases; if the costs cannot be specifically identified to a certain phase or the improvements benefit more than one phase, the Company allocates the costs between the phases based on their relative estimated sales values. Relative allocations of the costs are changed as the estimates are revised. If the Company used different estimates in these cost allocations, the amount and timing of the related gain on disposition of real estate for the individual parcels would differ.

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.

Dispositions of Real Estate

Gains on disposition of real estate are recognized upon sale of the underlying project in accordance with Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate*. The Company evaluates each real estate sale transaction to determine if it qualifies for gain recognition under the full accrual method. This evaluation requires the Company to make judgments and estimates in assessing whether a sale has been consummated, the adequacy of the buyer's investment, the subordination or collectibility of any receivable related to the purchase, and whether the Company has transferred the usual risks and rewards of ownership to the buyer, with no substantial continuing involvement by the Company. If the transaction does not meet the criteria for the full accrual method of profit recognition based on the Company's assessment, the Company accounts for a sale based on an appropriate deferral method determined by the nature and extent of the buyer's investment and the Company's continuing involvement. In some cases, a deferral method could require the real estate asset and its related liabilities to remain on the Company's balance sheet until the sale qualifies for a different deferral method or full accrual profit recognition.

Discontinued Operations

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. The evaluation of whether the component's cash flows have been eliminated and the level of the Company's continuing involvement requires judgment by the Company and a different assessment could result in items not being reported as discontinued operations. The Company has certain real estate assets that are land parcels and may constitute a component of an entity. From time to time, the Company disposes of these land parcels in smaller lots. An individual lot that is part of a larger land parcel may constitute a component of an entity within the meaning of paragraph 41 of FAS 144 when it is either classified as held for sale in accordance with FAS 144 or sold.

Carrying Value of Goodwill

As of December 31, 2005, the Company's total goodwill was \$75.2 million (7.9% of total assets). 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. The Company accounts for its goodwill in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS 142). This statement requires the Company to evaluate the carrying value of goodwill 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.

Under FAS 142, the Company's reporting units are the basis of its 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 2005, and determined that no impairment of goodwill existed at December 31, 2005.

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, 2005, the Company's liability relating to such claims (for both reported and estimated claims) was \$2.1 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 purchases excess coverage from an unrelated insurance carrier. The Company purchases general liability and automotive insurance through an unrelated insurance carrier. The captive insurance company reinsures the deductibles. The captive insurance company also insures deductibles relating to other coverages. 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, 2005, the Company's reserve for claims under these insurance programs was

\$15.1 million, of which \$4.3 million was included in other current liabilities and the remainder is included in other liabilities on the Company's consolidated balance sheet.

New Accounting Pronouncements

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (FAS 123R), which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123). Generally, the approach in FAS 123R is similar to the approach described in FAS 123. However, FAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

FAS 123R will become effective for the Company beginning January 1, 2006. FAS 123R permits public companies to adopt its requirements using one of two methods: a modified-prospective method or a modified-retrospective method. The Company plans to adopt FAS 123R using the modified-prospective method under which it will record compensation expense for all share-based awards granted after the effective date and for those unvested awards granted prior to the effective date.

As permitted by FAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, generally recognizes no compensation cost for the fair value of employee stock options or for the difference between the employee's cost and the market value of stock purchased under the Company's employee stock purchase plan. Accordingly, the adoption of FAS 123R's fair value method could have a significant impact on the Company's results of operations, although it is not expected to impact the Company's overall financial position. The total impact of adoption of FAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, the amount of additional expense the Company will recognize subsequent to adoption related to unvested stock options granted prior to adoption (net of estimated forfeitures) is not material. FAS 123R will also require the Company to estimate forfeitures of share-based payments upon grant. Prior to the adoption of FAS 123R, the Company's policy has been to reverse expense related to forfeitures of restricted stock as they occur. In the first quarter of 2006, the Company will record additional income of approximately \$1.0 million, net of income taxes, as a cumulative effect of a change in accounting principle. This cumulative effect represents a reversal of expense taken for those shares of unvested restricted stock granted prior to adoption that the Company estimates will be forfeited before vesting.

FAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While the Company cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amount of operating cash flows recognized in prior periods for such excess tax deductions related to the exercise of stock options and vesting of restricted stock was \$6.1 million in 2005 and not material in 2004 or 2003.

In June 2005, the FASB ratified the consensus in EITF 04-5, which states that the general partner in a limited partnership is presumed to control that limited partnership. That presumption may be overcome if the limited partners have either (1) the substantive ability either by a single limited partner or through a simple majority vote to dissolve (liquidate) the limited partnership or otherwise remove the general partner without cause or (2) substantive participating rights. Substantive participating rights provide the limited partners with the ability to effectively participate in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business and thereby preclude the general partner from exercising unilateral control over the partnership.

The effective date for applying the guidance in EITF 04-5 to the Company's general partner interests is June 29, 2005, for all new or amended limited partnerships and January 1, 2006, for all other limited

partnerships. The Company has applied EITF 04-5 for new or amended limited partnerships after June 29, 2005, in its December 31, 2005, financial statements. The Company is evaluating the impact of the new guidance on all other limited partnerships. The Company expects that the adoption for existing partnerships will not have a material impact on the Company's net income, earnings per share or stockholders' equity, but could require balance sheet consolidation or de-consolidation of certain of those existing partnerships.

Results of Operations Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

In accordance with FAS 144, certain revenues and expenses for the three quarterly periods ended March 31, June 30 and September 30, 2005, and the year ended December 31, 2004, have been reclassified to conform to the presentation for the quarter ended December 31, 2005. As a result, certain balances differ from the amounts reported in previously filed documents. See *Income from Discontinued Operations, Net of Income Taxes*, below, for additional information.

	For the Years Ended December 31,			
	2005	2004	\$ Change	% Change
	(dollars in thousands)			
REVENUES:				
<i>User Services:</i>				
Facilities management	\$ 237,659	\$ 211,062	\$ 26,597	12.6 %
Corporate advisory services	186,847	143,266	43,581	30.4 %
Project management services	118,678	91,599	27,079	29.6 %
	543,184	445,927	97,257	21.8 %
<i>Investor Services:</i>				
Property management	136,665	137,193	(528)	(0.4) %
Brokerage	138,416	114,478	23,938	20.9 %
Construction management	11,973	11,187	786	7.0 %
	287,054	262,858	24,196	9.2 %
Development and construction	47,159	38,346	8,813	23.0 %
	877,397	747,131	130,266	17.4 %
Gain on disposition of real estate	18,553	26,742	(8,189)	(30.6) %
	895,950	773,873	122,077	15.8 %
COST AND EXPENSES:				
Salaries, wages and benefits	553,552	493,404	60,148	12.2 %
Commissions	151,721	120,345	31,376	26.1 %
General and administrative	140,618	127,758	12,860	10.1 %
Depreciation	9,257	9,985	(728)	(7.3) %
Amortization	738	1,359	(621)	(45.7) %
Interest	5,441	4,195	1,246	29.7 %
	861,327	757,046	104,281	13.8 %
Operating income	34,623	16,827	17,796	105.8 %
Interest and other income	2,835	2,797	38	1.4 %
Income from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	37,458	19,624	17,834	90.9 %
Income tax expense	(13,856)	(7,452)	(6,404)	(85.9) %
Minority interest, net of income taxes	2,528	(3,006)	5,534	184.1 %
Income from investments in unconsolidated subsidiaries, net of income taxes	15,154	10,971	4,183	38.1 %
Income from continuing operations	41,284	20,137	21,147	105.0 %
Income from discontinued operations, net of income taxes	18,123	18,982	(859)	(4.5) %
Net income	\$ 59,407	\$ 39,119	\$ 20,288	51.9 %

Segment Performance. The Global Services segment income before income taxes increased 79% from \$38.3 million in 2004 to \$68.4 million in 2005. Revenues for this segment increased 17%, from \$710.8 million in 2004 to \$831.7 million in 2005. Significant increases in all of the user services revenues lines (facilities management up 13%, corporate advisory services up 30%, and project management for user customers up 30%) contributed to the increase in income before income taxes, as did the 21% increase in brokerage revenues from investor customers. The revenue increases reflect the impact of the Company's success winning new outsourcing business both through new contract awards and expansions with existing customers and its continued efforts to grow its brokerage business.

Development and Investment segment income before income taxes remained relatively flat, increasing 4% from \$24.8 million in 2004 to \$25.9 million in 2005. Segment revenues plus income from unconsolidated subsidiaries plus income from discontinued operations (all before income taxes) were up 2% in total during 2005 as compared to 2004. As previously noted, FAS 144 requires classification of certain real estate gains as income from discontinued operations in those instances where the Company will have no significant continuing involvement with the real estate following the sale. Such sales of real estate in part define the business of the Development and Investment segment and they are expected to be a continuing source of segment (and Company) profitability. In addition, substantial indirect costs of producing this income from either source such as local office salaries and bonuses that are driven by overall local office profitability are included in segment expenses and not netted against income from unconsolidated subsidiaries or income from discontinued operations.

Revenues. The increase in facilities management revenue from 2004 was primarily the result of the addition of several new customers. Additionally, the increase reflected the expansion of a client relationship in the second quarter of 2004. Reimbursement of salaries, wages, benefits and out-of-pocket general and administrative costs, a component of facilities management revenue, comprised the majority of the revenue increases from 2004. 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 revenue increased from 2004, primarily due to increased commission revenues and incentive fees in 2005. This increase is in part the result of an increase in the number of tenant representation brokers as the Company has focused on expanding its brokerage network. In addition, transaction volumes have increased as clients continue to show a willingness to make real estate commitments.

The increase in project management services revenue was the result of the addition of new clients and the expansion of services provided to existing clients (due to increases in clients' portfolios, the scope of the Company's services provided under certain outsourcing contracts and transaction volume).

The slight decrease in property management revenue was the result of decreased square footage under management in 2005 as compared to 2004. The reduction in square footage primarily resulted from sales of buildings in the Company's management portfolio to REITs or other investors that self-manage their properties or use other service providers. In addition, some square footage decreases resulted from clients taking services in-house or to other service providers. These decreases were partially offset by additions to square footage from new business.

Brokerage revenue increased due to increases in investment sales commissions and, to a lesser extent, project leasing commissions. Real estate remains a favored asset class among certain investors as a result of improving leasing fundamentals and relatively low interest rates. As a result, investment sales activity and the resulting commission revenue have increased.

The increase in construction management revenue from 2004 resulted from a higher volume of construction projects as tenant leasing activity increased and is consistent with the increase in brokerage revenue. Construction management revenue is generated from services including space planning and tenant finish coordination for investor clients in conjunction with property management and leasing assignments, and are directly related to tenants' real estate demands.

Development and construction revenue increased from 2004 due in part to an increase in development fees. Typically, the impact of increases and decreases in the Company's development starts and investments is not reflected in financial results until later periods. The Company experienced an increase in development and construction revenue in 2005 as a consequence of development starts and investments trending up in 2004, with 2004 starts more than doubling those for 2003. In addition, development and construction revenue increased due to an increase in rental revenue from acquisitions of operating real estate properties during the second half of 2004.

Through approximately 1990, the Company focused its commercial real estate development business on office, industrial and retail projects primarily for investor clients. Since that time, the Company has expanded its focus to include other types of commercial development and development for user clients. National initiative teams source opportunities with both user and investor clients in healthcare, higher education, on-airport distribution and residential/mixed-use development, and initiative personnel support local development teams in their development of the resulting projects. By expanding its focus to include development for user clients and in these initiatives, particularly those in the healthcare sector, the Company seeks to mitigate the cyclicity traditionally inherent in the commercial development business. The Company seeks to establish funds and programs with capital partners and to channel increasing amounts of development and investment activity into those funds and programs.

The Company's gain on disposition of real estate decreased in 2005 from 2004. During 2005, the Company sold seven real estate projects for an aggregate net sales price of \$41.7 million. The sales resulted in an aggregate gain on disposition of real estate of \$18.6 million, including deferred gain of \$0.7 million. In 2004, the Company sold 17 real estate projects for an aggregate net sales price of \$121.4 million. The sales resulted in an aggregate gain on disposition of real estate of \$26.7 million, including recognition of deferred gain of \$0.4 million relating to dispositions in previous periods.

In addition, Development and Investment income is generated from investments in unconsolidated subsidiaries and from the operation and/or disposition of real estate classified as discontinued operations. The impact of Development and Investment project sales accounted for as income from the Company's unconsolidated subsidiaries or as income from discontinued operations is a regular part of, and can contribute significantly to, Development and Investment results in any given period. See *Income from Investments in Unconsolidated Subsidiaries, Net of Income Taxes* and *Income from Discontinued Operations Net of Income Taxes* below.

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 clients (reimbursed employees); salaries, benefits and annual incentive bonuses for employees whose compensation is not so reimbursed (unreimbursed employees); long-term incentive compensation associated with restricted stock grants to certain employees; and transaction-related incentive compensation other than brokerage commissions, primarily paid in connection with development and investment transactions, including those transactions recorded as income from discontinued operations. Salaries, wages and benefits expense for both reimbursed and unreimbursed employees increased in 2005 from 2004. Salaries, wages and benefits for reimbursed employees grew as the Company increased its facilities management and project management headcount to service client expansions and new clients. In addition, the Company's annual incentive bonus expense increased due to the Company's increased headcount and profitability in 2005.

The increase in commission expense for 2005 was directly attributable to the increases in the Company's corporate advisory services and brokerage revenue discussed above.

General and administrative expenses increased in 2005 due in part to increased client-reimbursed out-of-pocket general and administrative expenses due to growth in the Company's facilities management and project management service lines. In addition, the acquisition of several operating real estate properties in the second half of 2004 led to increased real estate operating expenses in 2005. These properties, which the Company plans to redevelop, lease and sell, include acquisitions made through the Company's fifth discretionary development and investment fund (Fund V). The Company's insurance expense also increased as a result of higher premium rates being charged by the insurance industry.

Depreciation and amortization expenses decreased in 2005 from the prior year. The Company has replaced many of its computer assets at a lower cost than the assets that were retired, which has reduced the Company's depreciation expense. In addition, several intangible asset balances related to acquired management contracts became fully amortized during 2004, which resulted in a decrease in amortization expense in 2005 as compared to 2004.

The increase in interest expense in 2005 is primarily the result of higher average outstanding balances and higher interest rates related to the Company's revolving line of credit as compared to 2004. In 2005, the Company drew amounts under its revolving line of credit to fund the Company's acquisition of an increased ownership interest in Savills.

Minority Interest, Net of Income Taxes. Minority interest fluctuated from an expense in 2004 to income in 2005. This change primarily relates to operating losses incurred by Fund V, which are shared with outside partners. Fund V has acquired several operating real estate properties since the first half of 2004 that, as expected, generated operating losses in the current period. The Company plans to redevelop, lease and sell these properties. In addition, a portion of the 2005 income relates to the minority interest owners' share of fees earned by the Company related to certain real estate projects.

Income from Investments in Unconsolidated Subsidiaries, Net of Income Taxes. In the ordinary course of business, a significant portion of the Company's development and investment activities are conducted, and are expected to be conducted in future periods, through unconsolidated subsidiaries. The Company also has certain investments in unconsolidated subsidiaries which are not related to its development and investment activities. 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 overall increase in 2005 was primarily the result of increased income from the Company's investment in Savills, due to the purchase of additional shares of Savills in 2005, which increased the Company's ownership interest from approximately 10% to approximately 19.6% of the outstanding stock of Savills. In 2005, income from the Company's investment in Savills was partially offset by amortization of the portion of the Savills purchase price allocated to certain intangibles.

Income from Discontinued Operations, Net of Income Taxes. Income from discontinued operations consisted of the operations of real estate properties and gain on disposition of real estate properties held for sale or sold, that were considered components of an entity under FAS 144 and in which the Company had not retained or did not expect to retain significant continuing involvement. Dispositions of real estate assets have been and 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 significant amount of these activities to be classified as discontinued operations in future periods. Because gains on sale of real estate projects accounted for as income from discontinued operations give rise to significant incentive compensation expense on account of local office and overall Company profitability (which was separately accounted for as salaries, wages and benefits), the portion of the Company's net income attributable to sales was significantly less than the amount shown as income from discontinued operations.

During 2005, the Company sold 22 real estate projects that were considered discontinued operations for an aggregate net sales price of \$120.3 million. The sales resulted in an aggregate gain on disposition of real estate (before income taxes) of \$31.5 million. In 2004, the Company sold five real estate projects that were considered discontinued operations for an aggregate net sales price of \$83.9 million. The sales resulted in an aggregate gain on disposition of real estate (before income taxes) of \$42.5 million (including interest forgiveness of \$0.3 million, and minority interest expense of \$10.8 million).

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

In accordance with FAS 144, certain revenues and expenses for the years ended December 31, 2004 and 2003, have been reclassified to conform to the presentation for the year ended December 31, 2005. As a result, certain balances differ from the amounts reported in previously filed documents. See *Income from Discontinued Operations, Net of Income Taxes*, below, for additional information.

	For the Years Ended December 31,				
	2004	2003	\$ Change	% Change	
	(dollars in thousands)				
REVENUES:					
<i>User Services:</i>					
Facilities management	\$ 211,062	\$ 208,936	\$ 2,126	1.0	%
Corporate advisory services	143,266	123,335	19,931	16.2	%
Project management services	91,599	65,500	26,099	39.8	%
	445,927	397,771	48,156	12.1	%
<i>Investor Services:</i>					
Property management	137,193	143,727	(6,534)	(4.5))%
Brokerage	114,478	95,593	18,885	19.8	%
Construction management	11,187	10,736	451	4.2	%
	262,858	250,056	12,802	5.1	%
Development and construction	38,346	43,203	(4,857)	(11.2))%
	747,131	691,030	56,101	8.1	%
Gain on disposition of real estate	26,742	13,199	13,543	102.6	%
	773,873	704,229	69,644	9.9	%
COST AND EXPENSES:					
Salaries, wages and benefits	493,404	452,195	41,209	9.1	%
Commissions	120,345	98,957	21,388	21.6	%
General and administrative	127,758	116,434	11,324	9.7	%
Depreciation	9,985	14,704	(4,719)	(32.1))%
Amortization	1,359	1,856	(497)	(26.8))%
Interest	4,195	5,953	(1,758)	(29.5))%
	757,046	690,099	66,947	9.7	%
Operating income	16,827	14,130	2,697	19.1	%
Interest and other income	2,797	2,236	561	25.1	%
Income from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	19,624	16,366	3,258	19.9	%
Income tax expense	(7,452)	(6,636)	(816)	(12.3))%
Minority interest, net of income taxes	(3,006)	1,231	(4,237)	(344.2))%
Income from investments in unconsolidated subsidiaries, net of income taxes	10,971	9,839	1,132	11.5	%
Income from continuing operations	20,137	20,800	(663)	(3.2))%
Income from discontinued operations, net of income taxes	18,982	240	18,742	7,809.2	%
Net income	\$ 39,119	\$ 21,040	\$ 18,079	85.9	%

Segment Performance. The Global Services segment income before income taxes increased 41% from \$27.2 million in 2003 to \$38.3 million in 2004. Revenues for this segment increased 9%, from \$649.6 million in 2003 to \$710.8 million in 2004. Significant increases in two of the user services revenue lines (corporate advisory services up 16% and project management for user customers up 40%)

contributed to the increase in income before income taxes, as did the 20% increase in brokerage revenues from investor customers. The revenue increases reflect the impact of the Company's progress in growing its brokerage force and its strengthening capability in the area of outsourcing sales.

Development and Investment segment income before income taxes more than tripled in 2004, increasing from \$8.2 million in 2003 to \$24.8 million in 2004. Segment revenues plus income from unconsolidated subsidiaries plus income from discontinued operations (all before income taxes) were up 53% in 2004 as compared to 2003.

Revenues. Facilities management revenue increased slightly from 2003. This increase primarily resulted from an expansion of a client relationship in the second quarter of 2004. The overall increase was offset by the termination of certain client relationships 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, increased \$7.3 million in 2004, compared to 2003.

Corporate advisory services revenue increased from 2003, primarily increased commission revenues in 2004. The increase was the result of growth in the number of tenant representation brokers as part of the Company's focus on expanding its brokerage network. In addition, transaction volumes had increased, reflecting clients' willingness to make real estate commitments.

The increase in project management services revenue was mainly the result of the expansion of services provided to existing clients (due to increases in clients' portfolios, the scope of the Company's services provided under certain outsourcing contracts and transaction volume). Also, the Company has added new clients.

The decrease in property management revenue was partially the result of decreased square footage under management in 2004 as compared to 2003. The reduction in square footage primarily resulted from sales of buildings in the Company's management portfolio to REITs or other investors that self-manage their properties or use other service providers. In addition, some square footage decreases resulted from clients taking services in-house or to other service providers. These decreases were partially offset by additions to square footage from new business.

The increase in brokerage revenue was driven by a large increase in investment sales commissions, while project leasing commissions increased slightly. Favorable capital markets fundamentals, including low interest rates, led to increased investment sales transaction volumes, which contributed to the improvement in investment sales commissions. The addition of investment sales brokers, resulting from the Company's focus on expansion of its brokerage network, also contributed to the increase in such commissions.

Construction management revenue remained relatively flat in 2004 as compared to 2003, although the Company did experience an increase in new projects in the second half of 2004. Construction management revenue is generated from services including space planning and tenant finish coordination for investor clients in conjunction with property management and leasing assignments, and are directly related to tenants' real estate demands.

Development and construction revenue decreased in 2004 primarily due to a decrease in incentive development fees, which was largely due to the timing of significant transactions in 2004 as compared to 2003. In addition, the decrease in 2004 is due to a reduction in the Company's development starts and investments (including property acquisitions) in recent years. Typically, the impact of increases and decreases in the Company's development starts and investments is not reflected in financial results until later periods, and the Company has experienced a reduction in its 2004 development and construction revenue as a consequence of reduced 2002 and 2003 development starts and investments. However, development starts and investments began trending up in 2004 with 2004 starts more than doubling those for 2003.

The Company's gain on disposition of real estate decreased slightly in 2004 from 2003. During 2004, the Company sold 17 real estate projects for an aggregate net sales price of \$121.4 million. The sales resulted in an aggregate gain on disposition of \$26.7 million, including recognition of deferred gain of \$0.4 million related to dispositions in previous periods. In 2003, the Company sold 19 real estate projects

for an aggregate net sales price of \$67.1 million. The sales resulted in an aggregate gain on disposition of \$13.2 million, including recognition of deferred gain of \$0.3 million related to dispositions in a previous period.

Costs and Expenses. The increase in salaries, wages, and benefits expense in 2004 was primarily due to growth in salaries, wages and benefits for reimbursed employees as the Company increased its project management headcount to service client expansions and the addition of new clients. In addition, the Company's annual incentive bonus expense and transaction-related incentive compensation expense increased due to the Company's increased profitability in 2004.

The 2004 increase in commission expense was directly attributable to the increase in the Company's corporate advisory services and brokerage revenue discussed above.

General and administrative expenses increased in 2004 primarily due to increased client-reimbursed out-of-pocket general and administrative expenses, largely driven by the growth in the Company's project management service line.

Depreciation and amortization expenses decreased in 2004 from the prior year. The Company has replaced many of its computer assets at a lower cost than the assets that were retired, which has reduced the Company's depreciation expense. In addition, several intangible asset balances related to acquired management contracts became fully amortized during 2004, which created a decrease in amortization expense as compared to 2003.

The decrease in interest expense is due in part to the expiration of the Company's interest rate swap agreement at the end of the first quarter of 2003 for which the Company recorded \$0.6 million of interest expense in 2003. The Company also had lower average outstanding balances on its revolving line of credit and capital leases during 2004 as compared to 2003.

Minority Interest, Net of Income Taxes. Minority interest fluctuated from income in 2003 to an expense in 2004. This change is primarily a result of 2004 gains on dispositions of consolidated real estate projects in which outside parties have an interest. In addition, the results of operations of certain consolidated real estate entities with outside owners improved due to lower charges for impairment of real estate held by these entities in 2004, as compared to 2003.

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 overall increase in 2004 was primarily the result of significant income from an unconsolidated subsidiary that sold its building portfolio in the first quarter of 2004 and increased income from the Company's investment in Savills due to Savills' improved operating results.

Income from Discontinued Operations, Net of Income Taxes. During 2004, the Company sold five real estate projects that were considered discontinued operations for an aggregate net sales price of \$83.9 million. The sales resulted in an aggregate gain on disposition of real estate (before income taxes) of \$42.5 million (including interest forgiveness of \$0.3 million), and minority interest expense of \$10.8 million. In 2003, the Company sold four real estate projects that were considered discontinued operations for an aggregate sales price of \$25.1 million. The sales resulted in an aggregate gain on disposition of \$5.6 million. Income from discontinued operations for 2003 included a provision for loss of \$1.4 million to reflect a real estate held for sale asset at fair value less cost to sell. Income from discontinued operations for 2003 also included \$2.1 million of impairment on real estate. Both of these real estate assets were sold in 2004.

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 favorable results from state tax planning.

Quarterly Results of Operations and Seasonality

The following table presents unaudited quarterly results of operations data for the Company for each of the eight quarters in 2005 and 2004. This quarterly information is unaudited but, in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the information for the periods presented. The results of operations for any quarter are not necessarily indicative of results for any future period. Revenues and net income during the fourth fiscal quarter historically have been greater than in each of the first three fiscal quarters, primarily because the Company's clients have demonstrated a tendency to close transactions toward the end of the fiscal year. The timing and introduction of new contracts, the disposition of investments in real estate assets and other factors may also cause quarterly fluctuations in the Company's results of operations.

	Quarter Ended March 31 (in thousands)	June 30	September 30	December 31
2005:				
Total revenues	\$ 178,621	\$ 211,989	\$ 226,729	\$ 278,611
Income (loss) from discontinued operations, net of income taxes(1)	(325)	680	12,181	5,587
Net income	2,053	8,264	14,517	34,573
2004:				
Total revenues	\$ 158,099	\$ 181,933	\$ 188,498	\$ 245,343
Income (loss) from discontinued operations, net of income taxes(1)	397	(18)	(73)	18,676
Net income	2,099	3,214	5,854	27,952

(1) Discontinued operations include the operations of real estate properties and gain on disposition of real estate properties held for sale or sold in which the Company retained or expects to retain no continuing involvement, in accordance with FAS 144.

Liquidity and Capital Resources

The Company's liquidity and capital resources requirements include the funding of working capital needs, primarily costs incurred in providing services to its clients before collection of related billings; the funding of capital investments, including the acquisition of or investments in other real estate service companies; the repurchase of its shares if authorized by the Board of Directors; expenditures for real estate and payments on notes payable associated with its development and investment activities; and expenditures related to upgrading the Company's management information systems. The Company finances its operations with internally generated funds and borrowings under the Credit Facility (described below). The portion of the Company's development and investment business that includes the acquisition and development of real estate is financed with loans secured by underlying real estate, external equity, internal sources of funds, or a combination thereof.

Net cash used in operating activities totaled \$3.0 million in 2005, compared to cash provided of \$94.4 million in 2004. Cash provided by operating activities, excluding the change in real estate and related borrowings, totaled \$33.6 million in 2005 as compared to \$95.7 million in 2004. This decrease in cash provided by operating activities is partially due to higher outstanding accounts receivable balances in 2005, consistent with the overall growth in the Company's revenues from 2004 to 2005. In addition, the Company collected a large receivable from an affiliate in 2004 that was outstanding at year-end 2003, as compared to no such large receipts in 2005. The Company also made greater incentive compensation and income tax payments during 2005 on account of 2004 activity, as compared to such payments made during 2004. Cash used in real estate activities, net of related borrowings, was \$36.6 million in 2005, compared to \$1.3 million in 2004 as a result of increased real estate investment activity in 2005.

Net cash used in investing activities totaled \$114.8 million in 2005, compared to \$37.1 million in 2004. This increase in cash used is primarily due to investments in unconsolidated subsidiaries, net of distributions, of \$86.0 million in 2005 as compared to distributions from the Company's unconsolidated subsidiaries, net of contributions, of \$7.1 million in 2004. The increase in investments is attributable to the Company's purchase of additional shares of Savills in 2005. The Company's wholly-owned captive insurance company also made purchases, net of sales proceeds and maturities, of \$18.4 million in marketable securities in 2005, as compared to no such purchases in 2004. This increase in cash used was offset by a decrease in expenditures related to real estate classified as held for investment, which were \$39.5 million in 2005, as compared to \$105.8 million in 2004. These expenditures were offset by \$38.9 million of proceeds from the dispositions of real estate projects classified as held for investment at the time of disposition in accordance with FAS 144, as compared to \$67.3 million of such proceeds in 2004.

Net cash provided by financing activities totaled \$31.1 million in 2005 as compared to \$0.7 million in 2004. The increase in cash provided in 2005 is due, in part, to borrowings, net of principal debt payments, under the Company's line of credit of \$36.3 million, compared to principal debt payments, net of borrowings, of \$13.4 million in 2004. The Company used these 2005 borrowings to fund its purchase of additional shares of Savills. In addition, the Company received proceeds from the exercise of employee stock options of \$8.2 million in 2005, as compared to \$1.7 million in 2004. Another factor contributing to the increase in cash provided was that the Company used less cash in 2005 to repurchase common stock, or \$20.1 million in 2005 as compared to \$37.9 million in 2004. This increase in cash provided was offset by a decrease in proceeds from borrowings, net of payments, on notes payable related to real estate held for investment, which were \$12.5 million in 2005 as compared to \$47.2 million in 2004. In addition, the Company made distributions, net of contributions, to minority interest holders of \$9.1 million in 2005, compared to contributions received, net of distributions, of \$0.2 million in 2004.

In June 2005, the Company obtained a \$175.0 million revolving line of credit (the Credit Facility) arranged by Bank of America, N.A., as the administrative agent, which replaced the Company's previous \$150.0 million revolving line of credit. Borrowings under the Credit Facility are due in June 2008 and are either Base Rate Loans or Eurodollar Rate Loans. Base Rate Loans bear interest at a base rate plus a margin up to 0.25% depending on the Company's leverage ratio. The base rate is the higher of the prime lending rate or an average federal funds rate plus 0.5%. Eurodollar Rate Loans bear interest at the Eurodollar rate plus a margin, which ranges from 1.75% to 2.0%, depending upon the Company's leverage ratio. The Eurodollar rate is based on the British Bankers Association LIBOR rate. The Credit Facility contains various covenants such as the maintenance of minimum net worth, liquidity, revenues, interest coverage ratios and fixed charge ratios. The Credit Facility also includes restrictions on recourse indebtedness and total indebtedness, restrictions on liens and certain restrictions on investments and acquisitions that can be made by the Company. In addition, the Company may not pay dividends, repurchase common shares, or make other distributions on account of its common stock exceeding 50% of the previous year's net income before depreciation and amortization, plus, for the year ended December 31, 2005 only, an amount equal to \$20.0 million. The Credit Facility is guaranteed by certain significant subsidiaries of the Company and is secured by a pledge of stock of such significant subsidiaries and a pledge of certain intercompany indebtedness.

The Company's participation in derivative transactions has been limited to risk management purposes, and derivative instruments are not held for trading purposes. If a certain interest coverage ratio is not maintained, as defined in the agreement, the Credit Facility requires the Company to enter into one or more interest rate agreements for the Company's floating rate indebtedness in excess of \$30.0 million (other than construction loans under which interest is capitalized in accordance with GAAP) ensuring the net interest on such excess is fixed, capped or hedged.

The Company also has a \$25.0 million short-term revolving line of credit (the Swing Line) with Bank of America, N.A. Each loan obtained by the Company under the Swing Line matures in five business

days, but no later than June 28, 2008, and bears interest at a 30-day LIBOR-based rate (plus an applicable margin as defined per the agreement). Borrowings under the Swing Line are unsecured and reduce borrowing capacity under the Credit Facility.

At December 31, 2005, the Company had outstanding borrowings of \$35.0 million under the Credit Facility. The covenants contained in the Credit Facility and the amount of the Company's other borrowings and contingent liabilities may have the effect of limiting the borrowing capacity available to the Company under the Credit Facility to an amount less than the \$175.0 million commitment. The Company's unused borrowing capacity (taking into account borrowings and letters of credit outstanding) under the Credit Facility was \$133.9 million at December 31, 2005. Since many of the financial covenants in the Credit Facility are dependent on the Company's EBITDA, as defined in the Credit Facility agreement and calculated on a trailing four-quarter basis, a decline in the Company's overall operations could adversely impact the Company's ability to comply with these financial covenants and, in turn, the Company's borrowing capacity.

At December 31, 2005, the Company was in compliance with all covenants of the Credit Facility. The Company expects to continue to borrow under the Credit Facility to finance future strategic acquisitions and investments, fund its co-investment activities and provide the Company with an additional source of working capital.

In December 2005, the Company entered into an interest rate cap agreement in order to limit its interest expense on a construction loan with a 30-day LIBOR-based floating interest rate related to a consolidated real estate project. The interest rate cap agreement has a notional amount of \$25.7 million at December 31, 2005, and the Company will receive payments if the LIBOR-based interest rate exceeds 5.5%. The interest rate cap agreement has not been designated as an effective hedge, and therefore the interest rate cap agreement was marked to market each period with the change in fair market value recognized in current period earnings. The interest rate cap agreement expires on January 2, 2008. Through December 31, 2005, amounts recorded by the Company related to this interest rate cap agreement were not material.

The Company does not anticipate paying any dividends in the foreseeable future. The Company believes that funds generated from operations, together with existing cash and available credit under the Credit Facility and loans secured by underlying real estate will be sufficient to finance its current operations, planned capital expenditure requirements, payment obligations for development purchases, investments in development and investment funds and programs, share repurchases, acquisitions of and investments in service companies, signing bonuses or loans for new employees and internal growth for the foreseeable future. The Company's need, if any, to raise additional funds to meet its working capital and capital requirements will depend upon numerous factors, including the success and pace of implementation of its growth strategy. The Company regularly considers capital raising alternatives to be able to take advantage of available avenues to supplement its working capital, including strategic corporate partnerships or other alliances, bank borrowings and the sale of equity and/or debt securities.

In February 2006, the Company announced that its Board of Directors has authorized the purchase of up to \$50.0 million of its common stock from time to time in open market purchases or in privately negotiated transactions. The Company also amended its Credit Facility to allow for additional repurchases or other distributions on account of its common stock in an amount up to \$100.0 million from the date of the repurchase announcement through December 31, 2006 and to reduce the minimum required net worth covenant. The repurchase of shares is intended to be accretive to future earnings per share for holders who retain their shares. The Company's intent with respect to its stock repurchase programs is to reserve the repurchased shares for issuance in connection with the Company's equity-based incentive plans, as well as for other corporate purposes.

In March 2005, the Company announced that its Board of Directors authorized the purchase of up to \$20.0 million of its common stock from time to time in open market purchases or in privately negotiated transactions. In April 2005, the Company completed its \$20.0 million share repurchase program. A total of 970,142 shares were repurchased, at an average price of \$20.61 per share, all through open market purchases. The purchases were financed from the Company's available cash, and the Company placed the repurchased shares in treasury.

In September 2004, the Company commenced a Modified Dutch Auction tender offer whereby it offered to purchase up to 4,444,444 shares of its common stock. Under the terms of the tender offer, the Company invited stockholders to tender their shares at a purchase price not in excess of \$15.75, nor less than \$13.50 per share. The tender offer was completed in October 2004, and as a result, the Company purchased 2,354,437 shares of common stock priced at \$15.75 per share for a total of \$37.9 million, including the costs of the tender offer. The transaction was financed from the Company's available cash, and the Company placed the repurchased shares in treasury.

Off-balance Sheet Arrangements and Contractual Obligations

The Company has off-balance sheet arrangements consisting of certain debt repayment guarantees that have been provided by the Company as security for the obligations of others (primarily unconsolidated subsidiaries of the Company) in the normal course of the Company's real estate development business. The Company has not made any material payments under such arrangements in the years ended December 31, 2003, 2004 or 2005. As of December 31, 2005, the Company had guaranteed a maximum of \$7.1 million of such notes payable, all of which was outstanding as of December 31, 2005. Payments required under these arrangements, if any, could be indicative of impairment in the Company's investments in the underlying unconsolidated subsidiaries and therefore could result in additional expense to the Company.

The Company had various contractual obligations at December 31, 2005, as summarized below (in millions), that could impact its liquidity:

	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt obligations	\$ 36.3	\$ 1.3	\$ 35.0	\$	\$
Operating lease obligations	67.5	20.0	26.8	14.1	6.6
Notes payable on real estate (recourse)(1)(2)	18.6	8.1	10.5		
Notes payable on real estate (nonrecourse)(1)	237.6	24.3	213.3		
Other long-term obligations(3)	10.8		10.8		
Total Contractual Obligations	\$ 370.8	\$ 53.7	\$ 296.4	\$ 14.1	\$ 6.6

(1) Includes notes related to the Company's various real estate projects and excludes future interest. The notes (primarily construction loans) have either fixed or variable interest rates, ranging from 6% to 12% at December 31, 2005. In general, interest is drawn on the underlying construction loan and subsequently paid with principal with proceeds upon sale of the real estate project.

(2) With respect to a project to which \$3.3 million of these obligations relate, the Company has an agreement with an investor client to purchase the project upon completion, the proceeds of which will be used to repay the related note payable.

(3) These obligations, as well as \$4.3 million recorded in other current liabilities, are collateralized by outstanding letters of credit totaling \$12.6 million.

Effects of Inflation

The Company does not believe that inflation has had a significant impact on its results of operations in recent years. However, there can be no assurance that the Company's business will not be affected by inflation in the future.

Forward-Looking Statements

Certain statements contained or incorporated by reference in this Annual Report on Form 10-K, including without limitation statements containing the words believe, anticipate, attainable, forecast, will, may, expect(ation), envision, project, budget, objective, estimate, could, should, would, conceivable, intend, possible, prospects, foresee, look(ing) for, look to and words of similar forward-looking statements within the meaning of the federal securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other matters which may cause the actual results, performance or achievements of the Company or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other matters include, but are not limited to:

- the ability of the Company to retain its major clients and renew its contracts,
- the ability of the Company to attract new user and investor clients,
- the ability of the Company to manage fluctuations in net earnings and cash flow which could result from the Company's participation as a principal in real estate investments,
- the Company's ability to continue to pursue its growth strategy,
- the Company's ability to pursue strategic acquisitions on favorable terms and manage challenges and issues commonly encountered as a result of those acquisitions,
- the Company's ability to compete in highly competitive national and local business lines,
- the Company's ability to attract and retain qualified personnel in all areas of its business (particularly senior management),
- the timing of individual transactions,
- the ability of the Company to identify, implement and maintain the benefit of cost reduction measures and achieve economies of scale, and
- the ability of the Company to compete effectively in the international arena and manage the risks of operating in the international arena (including foreign currency exchange risk).

In addition, the Company's ability to achieve certain anticipated results will be subject to other factors affecting the Company's business that are beyond the Company's control, including but not limited to general economic conditions (including interest rates, the cost and availability of capital for investment in real estate, clients' willingness to make real estate commitments and other factors impacting the value of real estate assets), the effect of government regulation on the conduct of the Company's business and the threat of terrorism and acts of war. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company disclaims any obligation to update any such statements or publicly announce any updates or revisions to any of the forward-looking statements contained herein to reflect any change in the Company's expectation with regard thereto or any change in events, conditions, circumstances or assumptions underlying such statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is to changes in interest rates. The Company is exposed to market risk related to its Credit Facility and loans secured by real estate properties as discussed in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources* and in Notes 8 and 9 to the Company's Condensed Consolidated Financial Statements. The Credit Facility and the majority of the loans secured by real estate bear interest at variable rates and are subject to fluctuations in the market. In 2005, the Company borrowed \$35.0 million, net of principal debt payments, under the Credit Facility, primarily to fund the Company's acquisition of an additional ownership stake in Savills. This borrowing could further expose the Company to fluctuations in interest rates. From time to time, the Company purchases interest rate agreements to hedge, cap or lock a portion, but not all, of its exposure to fluctuations in interest rates, and, as such, the effects of interest rate changes may be limited.

If an increase or decrease in market interest rates of 100 basis points were to have occurred at December 31, 2005, the Company's total estimated interest costs for 2006 would increase or decrease by approximately \$2.9 million. The Company's sensitivity analysis is based on borrowings outstanding as of December 31, 2005 and includes the effects of the Company's various interest rate cap agreements, as applicable. If the market interest rates for variable rate debt had been 100 basis points higher or lower in 2005, the Company's total interest costs would have increased by approximately \$2.1 million or decreased by approximately \$2.2 million, accordingly, after considering the effect of the interest rate agreements in effect during 2005. Interest costs include both interest that is expensed and interest that is capitalized as part of the cost of real estate. A portion of the interest relating to the Company's real estate debt (\$256.2 million at December 31, 2005) is capitalized. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in a higher interest rate environment.

The Company's earnings are somewhat affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies as a result of the operations of the Company and its consolidated and unconsolidated subsidiaries in Canada, Europe, Asia-Pacific and Latin/South America. Due to the increase in the Company's ownership interest in Savills from approximately 10.0% to 19.6% in April 2005, the impact of fluctuations in currency exchange rates may become more significant to the Company's results of operations. At December 31, 2005, a uniform 10% strengthening or weakening in the value of the dollar relative to the currencies in which the Company's foreign operations are denominated would result in an estimated decrease or increase accordingly in income before income taxes of approximately \$1.0 million for the year ending December 31, 2006. If, during the year ended December 31, 2005, a uniform 10% strengthening or weakening in the value of the dollar relative to the currencies in which the Company's foreign operations are denominated had occurred, it would have resulted in a decrease or increase accordingly in income before income taxes of approximately \$0.9 million (primarily in income from investments in unconsolidated subsidiaries). These calculations assume that each exchange rate would change in the same direction relative to the U.S. dollar and are based on either the Company's actual 2005 or an estimate of 2006 income before income taxes from foreign operations. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in potential changes to its 2006 anticipated level of foreign operations or local currency prices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the List of Financial Statements and Financial Statement Schedule on page F-2 for a listing of the Company's financial statements and notes thereto and for the financial statement schedule contained herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in 13a-15(e) of the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in this report.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2005.

The Company's independent auditors have issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report appears in *Item 8. Financial Statements and Supplementary Data*.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information set forth under the headings *Proposal One Election of Class III Directors*, *Directors*, *Executive Officers*, *Meetings and Committees of Directors*, *Code of Business Conduct and Ethics* and *Section 16(a) Beneficial Ownership Reporting Compliance* contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company's 2006 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the heading *Executive Compensation* contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company's 2006 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

At December 31, 2005, securities authorized for issuance under the Company's equity compensation plans are as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,878,342	\$ 13.56	817,728
Equity compensation plans not approved by security holders	7,500	\$ 11.44	
Total	4,885,842	\$ 13.55	817,728

The options to acquire 7,500 shares issuable under plans that were not approved by stockholders were granted on May 1, 2000, and vested one-quarter each year on each of the first four anniversaries of the grant date. The options expire ten years from the date of grant.

The information set forth under the heading *Security Ownership of Certain Beneficial Owners, Directors and Management* contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company's 2006 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the headings *Executive Compensation* and *Certain Relationships and Related Transactions* contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company's 2006 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information set forth under the heading *Fees Billed By Independent Registered Public Accounting Firm* and *Audit Committee Policies and Procedures for Pre-Approval of Audit and Non-Audit Services* contained in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act in connection with the Company's 2006 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) The financial statements filed as part of this Report at Item 8 are listed in the List of Financial Statements and Financial Statement Schedule on page F-2 of this Report.

Financial statements of TFK Retail, Ltd. are filed as part of this Report at Item 8 pursuant to Rule 3-09 of Regulation S-X.

(a)(2) The financial statement schedule filed as part of this Report at Item 8 is listed in the List of Financial Statements and Financial Statement Schedule on page F-2 of this Report.

(a)(3) The following documents are filed or incorporated by reference as exhibits to this Report:

- 3.1(1) Certificate of Incorporation of the Company
- 3.2(1) Bylaws of the Company
- 3.2.1(5) First Amendment to Bylaws of the Company
- 3.2.2(9) Second Amendment to Bylaws of the Company
- 3.2.3(11) Third Amendment to Bylaws of the Company
- 4.1(1) Form of certificate for shares of Common Stock of the Company
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- (b) The exhibits required by Item 601 of Regulation S-K are filed as part of this Report.
- (c) The required financial statements and financial schedule are filed as part of this Report.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRAMMELL CROW COMPANY

By:

/s/ ROBERT E. SULENTIC

Robert E. Sulentic

*Chairman of the Board, President and
Chief Executive Officer*

Date: March 15, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ ROBERT E. SULENTIC	Chairman of the Board, President and Chief	March 15, 2006
Robert E. Sulentic	Executive Officer (Principal Executive Officer)	
*	Executive Vice President and	March 15, 2006
Derek R. McClain	Chief Financial Officer	
*	Executive Vice President and	March 15, 2006
Arlin E. Gaffner	Chief Accounting Officer	
*	Director	March 15, 2006
Curtis F. Feeny		
*	Director	March 15, 2006
Michael A. Moses		
*	Chairman Emeritus	March 15, 2006
J. McDonald Williams		
*	Vice Chairman	March 15, 2006
William F. Concannon		
*	Director	March 15, 2006
James R. Erwin		
*	Director	March 15, 2006
Jeffrey M. Heller		
*	Director	March 15, 2006
Rowland T. Moriarty		

Robert Sulentic, by signing his name hereto, does hereby sign this Annual Report on Form 10-K on behalf of each of the above-named directors and officers of the Company on the date indicated below, pursuant to powers of attorney executed by each of such directors and officers and contemporaneously filed herewith with the Commission.

*By: /s/ ROBERT E. SULENTIC
Robert E. Sulentic
Attorney-in-fact

March 15, 2006

Exhibit Index

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ANNUAL REPORT ON FORM 10-K

ITEM 8, ITEM 15(a)(1) and (2) and (c)

LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CERTAIN EXHIBITS

FINANCIAL STATEMENT SCHEDULE

YEAR ENDED DECEMBER 31, 2005

TRAMMELL CROW COMPANY AND SUBSIDIARIES

DALLAS, TEXAS

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FORM 10-K ITEM 15(a)(1) and (2)
TRAMMELL CROW COMPANY AND SUBSIDIARIES
LIST OF FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statements of Trammell Crow Company and Subsidiaries for the year ended December 31, 2005, are included in Item 8:

<u>Reports of Independent Registered Public Accounting Firm</u>	F-3
<u>Consolidated Balance Sheets as of December 31, 2005 and 2004</u>	F-5
<u>Consolidated Statements of Income for the Years Ended December 31, 2005, 2004 and 2003</u>	F-6
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2005, 2004 and 2003</u>	F-7
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003</u>	F-8
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2005, 2004 and 2003</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-10

The following consolidated financial statement schedule of Trammell Crow Company and Subsidiaries is included in Item 15(c):

<u>Schedule III Real Estate Investments and Accumulated Depreciation</u>	F-48
<u>Note to Schedule III Real Estate Investments and Accumulated Depreciation</u>	F-50

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

The financial statements and related notes of TFK Retail, Ltd. as of June 30, 2004 are included below. The financial statements are included as TFK Retail, Ltd. is deemed to be a significant subsidiary pursuant to Rule 3-09 of Regulation S-X.

<u>Financial Statements of TFK Retail, Ltd. for the year ended June 30, 2004</u>	F-51
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Trammell Crow Company

We have audited the accompanying consolidated balance sheets of Trammell Crow Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, cash flows and comprehensive income for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trammell Crow Company and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Trammell Crow Company's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas
March 13, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Trammell Crow Company

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Trammell Crow Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Trammell Crow Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Trammell Crow Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Trammell Crow Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2005 consolidated financial statements of Trammell Crow Company and the financial statement schedule listed in the index at Item 15(a), and our report dated March 13, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Dallas, Texas
March 13, 2006

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2005	December 31, 2004 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 76,919	\$ 163,637
Restricted cash	1,416	9,950
Accounts receivable, net of allowance for doubtful accounts of \$3,235 in 2005 and \$3,144 in 2004	127,784	103,551
Receivables from affiliates	2,146	1,626
Notes and other receivables	16,303	20,825
Deferred income taxes	3,935	4,021
Real estate under development	129,963	9,564
Real estate and other assets held for sale	20,791	49,637
Available for sale securities	542	
Other current assets	27,399	17,657
Total current assets	407,198	380,468
Furniture and equipment, net	19,787	18,649
Deferred income taxes	16,270	22,935
Real estate under development	117,210	56,394
Real estate held for investment	89,906	106,157
Investments in unconsolidated subsidiaries	175,411	74,090
Goodwill, net	75,239	74,357
Receivables from affiliates	7,458	
Available for sale securities	18,089	
Other assets	21,599	15,900
	\$ 948,167	\$ 748,950
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 31,698	\$ 23,731
Accrued expenses	155,760	146,026
Payables to affiliates	4	40
Income taxes payable	16,313	18,121
Current portion of long-term debt	1,302	6
Current portion of notes payable on real estate	133,941	10,263
Liabilities related to real estate and other assets held for sale	17,508	31,643
Other current liabilities	5,944	12,585
Total current liabilities	362,470	242,415
Long-term debt, less current portion	35,034	8
Notes payable on real estate, less current portion	106,216	110,794
Other liabilities	13,448	10,027
Total liabilities	517,168	363,244
Minority interest	29,528	44,756
Stockholders' equity		
Preferred stock; \$0.01 par value; 30,000,000 shares authorized; none issued or outstanding		
Common stock; \$0.01 par value; 100,000,000 shares authorized; 37,903,058 shares issued and 36,040,317 shares outstanding in 2005 and 37,902,998 shares issued and 35,605,007 shares outstanding in 2004	379	379
Paid-in capital	205,084	196,314
Retained earnings	240,887	190,252
Accumulated other comprehensive income	1,713	2,043
Less: Treasury stock	(32,776)	(36,921)
Unearned stock compensation, net	(13,816)	(11,117)
Total stockholders' equity	401,471	340,950
	\$ 948,167	\$ 748,950

See accompanying notes.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Years Ended December 31,		
	2005	2004	2003
REVENUES			
<i>User Services:</i>			
Facilities management	\$ 237,659	\$ 211,062	\$ 208,936
Corporate advisory services	186,847	143,266	123,335
Project management services	118,678	91,599	65,500
	543,184	445,927	397,771
<i>Investor Services:</i>			
Property management	136,665	137,193	143,727
Brokerage	138,416	114,478	95,593
Construction management	11,973	11,187	10,736
	287,054	262,858	250,056
Development and construction	47,159	38,346	43,203
	877,397	747,131	691,030
Gain on disposition of real estate	18,553		