TRAMMELL CROW CO
Form 10-Q
May 10, 2004

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

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2004

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	**75-2721454**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2001 Ross AvenueSuite 3400 Dallas, Texas	**75201**
(Address of principal executive offices)	(Zip Code)

(214) 863-3000
(Registrant s telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨

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

There were 37,216,067 shares of the registrant s common stock outstanding as of May 3, 2004.

TRAMMELL CROW COMPANY AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

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

	March 31, 2004 (Unaudited)	December 31, 2003 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	$ 67,537	$ 105,616
Restricted cash	7,351	7,647
Accounts receivable, net of allowance for doubtful accounts of $3,162 in 2004 and $3,886 in 2003	93,559	97,479
Receivables from affiliates	2,936	1,593
Notes and other receivables	8,087	9,919
Deferred income taxes	3,760	3,754
Real estate under development	56,998	49,208
Real estate and other assets held for sale	24,203	35,584

Other current assets	20,576	21,764
Total current assets	285,007	332,564
Furniture and equipment, net	20,465	21,305
Deferred income taxes	19,754	19,898
Real estate under development	7,748	6,345
Real estate held for investment	83,037	77,334
Investments in unconsolidated subsidiaries	65,656	65,025
Goodwill, net	74,345	74,346
Receivables from affiliates	17,722	14,485
Other assets	18,881	18,824
	$ 592,615	$ 630,126
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 18,070	$ 16,183
Accrued expenses	83,885	116,074
Payables to affiliates	44	104
Income taxes payable	1,354	7,468
Current portion of long-term debt	895	1,081
Current portion of capital lease obligations	653	1,297
Current portion of notes payable on real estate	65,911	68,192
Liabilities related to real estate and other assets held for sale	15,062	24,737
Other current liabilities	8,612	9,869
Total current liabilities	194,486	245,005
Long-term debt, less current portion	12	10,014
Capital lease obligations, less current portion	666	714
Notes payable on real estate, less current portion	21,353	11,409
Other liabilities	7,574	6,459
Total liabilities	224,091	273,601
Minority interest	36,033	28,896
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; 37,783,595 shares issued and 37,051,067 shares outstanding in 2004 and 37,783,595 shares issued and 36,862,242 shares outstanding in 2003	377	377
Paid-in capital	192,411	192,336
Retained earnings	153,453	151,560
Accumulated other comprehensive income	1,305	1,106
Less:Treasury stock	(6,653)	(8,363)
Unearned stock compensation, net	(8,402)	(9,387)
Total stockholders equity	332,491	327,629
	$ 592,615	$ 630,126

See accompanying notes.

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

(Unaudited)

	For the Three Months Ended March 31,	
	2004	**2003**
REVENUES		
User Services:		
Facilities management	$ 50,756	$ 51,463
Corporate advisory services	22,534	22,672
Project management services	17,962	14,447
	91,252	88,582
Investor Services:		
Property management	34,562	37,423

Brokerage	22,149	17,494
Construction management	1,718	2,040
	58,429	56,957
Development and construction	8,329	9,825
	158,010	155,364
Gain on disposition of real estate	468	4,768
Other	887	654
	159,365	160,786
COSTS AND EXPENSES		
Salaries, wages and benefits	116,152	109,647
Commissions	20,022	17,351
General and administrative	26,421	25,670
Depreciation and amortization	3,231	4,169
Interest	904	2,278
	166,730	159,115
Income (loss) from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	(7,365)	1,671
Income tax (expense) benefit	3,091	(728)
Minority interest, net of income tax (expense) benefit of $25 and $(169) in 2004 and 2003, respectively	(35)	220
Income from investments in unconsolidated subsidiaries, net of income tax expense of $4,316 and $40 in 2004 and 2003, respectively	5,970	52
Income from continuing operations	1,661	1,215
Income (loss) from discontinued operations, net of income tax (expense) benefit of $(317) and $54 in 2004 and 2003, respectively	438	(71)
Net income	$ 2,099	$ 1,144
Income per share from continuing operations:		
Basic	$ 0.05	$ 0.03
Diluted	$ 0.05	$ 0.03
Income (loss) per share from discontinued operations, net of income taxes:		
Basic	$ 0.01	$
Diluted	$ 0.01	$
Net income per share:		
Basic	$ 0.06	$ 0.03
Diluted	$ 0.06	$ 0.03
Weighted average common shares outstanding:		
Basic	35,498,197	36,125,964
Diluted	37,390,140	36,799,238

See accompanying notes.

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
Three Months ended March 31, 2004 (Unaudited) and Year ended December 31, 2003 (Note 1)
(in thousands, except share data)

	Common Shares Issued	Common Shares Treasury	Common Stock Par Value	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Unearned Stock Compensation	Total
Balance at January 1, 2003	36,227,820	48,647	$ 362	$ 178,977	$ 130,874	$ (589)	$ (464)	$ (806)	$ 308,354
Net income					21,040				21,040
Issuance of restricted stock	1,413,000	(223,500)	14	12,269			2,028	(14,311)	
Forfeiture of restricted stock		237,570		(26)			(1,996)	1,807	(215)
Amortization of unearned stock compensation								3,923	3,923
Issuance of common stock	142,775	(275,764)	1	1,116	(354)		2,504		3,267
Stock repurchase		1,134,400					(10,435)		(10,435)
						1,358			1,358

Foreign currency translation adjustment, net of tax									
Change in fair value of interest rate swap agreement, net of tax						337			337
Balance at December 31, 2003	37,783,595	921,353	377	192,336	151,560	1,106	(8,363)	(9,387)	327,629
Net income					2,099				2,099
Issuance of restricted stock		(15,000)		75			136	(211)	
Forfeiture of restricted stock		798					(12)		(12)
Amortization of unearned stock compensation								1,196	1,196
Issuance of common stock		(174,623)			(206)		1,586		1,380
Foreign currency translation adjustment, net of tax						199			199
Balance at March 31, 2004	37,783,595	732,528	$ 377	$ 192,411	$ 153,453	$ 1,305	$ (6,653)	$ (8,402)	$ 332,491

See accompanying notes.

TRAMMELL CROW COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Three Months Ended March 31,	
	2004	**2003**
Operating activities		
Cash flows from earnings:		
Net income	$ 2,099	$ 1,144
Reconciliation of net income to net cash provided by (used in) earnings:		
Depreciation and amortization	3,257	4,221
Amortization of employment contracts and unearned stock compensation	1,491	929
Amortization of contract intangibles	525	513
Bad debt expense (recovery)	(320)	483
Provision for losses and writedowns for impairment on real estate	31	2,697
Gain on disposition of real estate held for investment	(556)	
Minority interest	60	(389)
Deferred income tax provision (benefit)	(10)	8
Income from investments in unconsolidated subsidiaries	(10,286)	(92)
Net cash provided by (used in) earnings	(3,709)	9,514
Changes in operating assets and liabilities:		
Restricted cash	296	42
Accounts receivable	4,240	22,384
Receivables from affiliates	(4,580)	(566)
Notes receivable and other assets	1,809	(1,473)
Real estate held for sale and under development	(12,130)	2,078
Notes payable on real estate held for sale and under development	6,670	172
Accounts payable and accrued expenses	(30,736)	(28,613)
Payables to affiliates	(60)	
Income taxes payable	(6,114)	(3,900)
Other liabilities	(138)	(737)
Net cash flows from changes in working capital	(40,743)	(10,613)
Net cash used in operating activities	(44,452)	(1,099)

Investing activities		
Expenditures for furniture and equipment	(1,387)	(887)
Additions to real estate held for investment	(1,902)	(83)
Net proceeds from disposition of real estate held for investment	11,335	
Investments in unconsolidated subsidiaries	(575)	(587)
Distributions from unconsolidated subsidiaries	10,670	4,308
Net cash provided by investing activities	18,141	2,751
Financing activities		
Principal payments on long-term debt and capital lease obligations	(46,109)	(10,047)
Proceeds from long-term debt	34,929	5,000
Contributions from minority interest	7,144	51
Distributions to minority interest	(67)	(5,596)
Proceeds from notes payable on real estate held for investment	584	
Payments on notes payable on real estate held for investment	(9,629)	(229)
Proceeds from exercise of stock options	140	
Proceeds from issuance of common stock	1,240	1,092
Net cash used in financing activities	(11,768)	(9,729)
Net decrease in cash and cash equivalents	(38,079)	(8,077)
Cash and cash equivalents, beginning of period	105,616	78,005
Cash and cash equivalents, end of period	$ 67,537	$ 69,928

See accompanying notes.

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2004	**2003**
Net income	$ 2,099	$ 1,144
Other comprehensive income:		
Foreign currency translation adjustments, net of tax expense of $148 in 2004 and $39 in 2003	199	74
Change in fair value of interest rate swap agreement, net of tax expense of $229 in 2003		337
Comprehensive income	$ 2,298	$ 1,555

See accompanying notes.

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

1. General

The condensed consolidated interim financial statements of Trammell Crow Company and subsidiaries (the Company) included herein have been prepared in accordance with the requirements for interim financial statements and do not include all disclosures required under accounting principles generally accepted in the United States (GAAP) for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003. In the opinion of management, all adjustments and eliminations, consisting only of recurring adjustments, necessary for a fair presentation of the financial statements for the interim periods have been made. Interim results of operations are not necessarily indicative of the results to be expected for the full year.

The Company has experienced and expects to continue to experience quarterly variations in revenues and net income as a result of several factors. The Company s quarterly revenues tend to increase throughout the year, particularly in the last quarter of the year, because its clients have demonstrated a tendency to close transactions toward the end of the 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.

Reclassifications

In accordance with Financial Accounting Standard Board (FASB) Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144), certain assets and liabilities at December 31, 2003, and certain revenues and expenses for the three months ended March 31, 2003, have been reclassified to conform to the presentation at and for the three months ended March 31, 2004 (see Notes 7 and 9). As a result, certain balances differ from the amounts reported in previously filed documents.

Use of Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Consolidation

As of March 31, 2004, the Company completed the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R), which did not require the Company to change its previous accounting method for any of its subsidiaries. The Company determines whether an entity is a variable interest entity (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.

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

1. General (Continued)

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and other subsidiaries that are not considered VIEs and over which the Company has control. In addition, the Company consolidates any VIEs of which it is the primary beneficiary in accordance with FIN 46R (see Note 3). Intercompany accounts and transactions have been eliminated. The Company s investments in subsidiaries (including VIEs of which the Company is not the primary beneficiary) in which it has the ability to exercise significant influence over operating and financial policies, but does not control (including subsidiaries where the Company has less than 20% ownership), are accounted for on the equity method. The Company eliminates transactions with such equity method subsidiaries to the extent of its ownership in such subsidiaries. Accordingly, the Company s share of the earnings or losses of these equity basis subsidiaries is included in consolidated net income. Investments in other subsidiaries are carried at cost. The Company s unconsolidated subsidiaries primarily own or invest in real estate development projects.

In May 2003, the Company entered into a purchase agreement with an independent third party (seller entity) to acquire parcels of undeveloped land for a purchase price of $19,500. In conjunction with the agreement, the Company has deposited $750 in escrow which is non-refundable in the event the Company decides not to purchase the land. This non-refundable deposit is considered to be a variable interest in the seller entity, which may be a VIE. However, based upon its evaluation, the Company is not the primary beneficiary of the seller entity, and therefore has not consolidated the seller entity that owns the property under contract. As or March 31, 2004, the Company s total exposure to loss as a result of its involvement with this VIE is limited to its deposit of $750.

The Company is part of a co-lender group with an independent third party that has issued a mezzanine loan to the owner of two office buildings. In April 2000, the Company provided its $567 share of the total $5,667 mezzanine loan. At that time, another independent third party lender provided the primary financing of $19,100 to the owner. The Company also provides building management and leasing services for the properties under a long-term contract at market rates for such services. The mezzanine loan arrangement is considered to be a variable interest in the entity that owns the properties, which the Company believes is a VIE. However, based upon its evaluation, the Company is not the primary beneficiary of the entity. Therefore, the Company has not consolidated the entity that owns the office properties for which it has provided financing. The Company s total outstanding loan balance exposed to loss as a result of its involvement with this VIE is $567 as of March 31, 2004. Also, see Note 3 for discussion on an equity investment in a VIE.

Income Taxes

The Company accounts for income taxes using the liability method. Deferred income taxes result from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for federal income tax purposes, and are measured using the enacted tax rates and laws that will be in effect when the differences reverse.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

1. General (Continued)

Earnings Per Share

The weighted-average common shares outstanding used to calculate diluted earnings per share for the three months ended March 31, 2004 and 2003, include 1,891,943 and 673,274 shares, respectively, to reflect the dilutive effect of unvested restricted stock and options to purchase shares of common stock.

Stock-Based Compensation

The Company has elected to use the intrinsic method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), to account for its stock-based compensation arrangements. Compensation expense for stock options is recognized to the extent the market price of the underlying stock on the date of grant exceeds the exercise price of the option. The Company recognizes compensation expense related to restricted stock awards over the vesting period of the underlying award in an amount equal to the fair market value of the Company s stock on the date of grant.

Pro forma information regarding net income (loss) and net income (loss) per share, shown in the table below, has been determined as if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*.

	Three Months Ended March 31,				
	2004		**2003**		
Net income, as reported	$	2,099	$	1,144	
Add: Stock-based employee compensation expense included in net income, net of related tax effects	694		279		
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,206		1,462		
Pro forma net income (loss)	$	1,587	$	(39	)
Net income (loss) per share:					
Basic as reported	$	0.06	$	0.03	
Basic pro forma	$	0.04	$		
Net income (loss) per share:					
Diluted as reported	$	0.06	$	0.03	
Diluted pro forma	$	0.04	$		

Non-Controlling Interests in Consolidated Limited Life Subsidiaries

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* (FAS 150). Certain provisions of FAS 150 would have required the Company to classify non-controlling interests in consolidated limited life subsidiaries as liabilities adjusted to their settlement values in the Company s

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

1. General (Continued)

financial statements. In November 2003, the FASB indefinitely deferred application of the measurement and recognition provisions (but not the disclosure requirements) of FAS 150 with respect to these non-controlling interests. As of March 31, 2004, the estimated settlement value of non-controlling interests in the Company s consolidated limited life subsidiaries is $10,348, as compared to book value (included in minority interest on the Company s balance sheet) of $8,357. The excess of settlement value over book value is driven by an even larger estimated appreciation of certain consolidated real estate assets and investments from the Company s book value, offset by selling costs and debt prepayment penalties, if any.

2. Real Estate

All real estate is included in the Company s Development and Investment segment (see Note 12). Real estate owned by the Company consists of the following:

	March 31, 2004		December 31, 2003	
Real estate under development (current)	$	56,998	$	49,208
Real estate included in assets held for sale (see Note 7)(1)		22,836		34,068
Real estate under development (non-current)		7,748		6,345
Real estate held for investment(2)		83,037		77,334
	$	170,619	$	166,955

(1) Net of allowances of $964 and $1,048 at March 31, 2004, and December 31, 2003, respectively, to reduce the carrying value of assets to fair value less cost to sell.

(2) Net of accumulated depreciation of $1,158 and $1,066 at March 31, 2004, and December 31, 2003, respectively.

In the three months ended March 31, 2004 and 2003, the Company recorded provisions for losses on real estate of $31 and $1,452, respectively, to increase the allowances on real estate held for sale to reduce the carrying value of assets to fair value less cost to sell. Of the amount recorded in the three months ended March 31, 2003, $1,395 was included in discontinued operations in the consolidated statements of income as it related to a real estate project that is considered a discontinued operation under FAS 144. All remaining amounts are included in general and administrative expenses in the consolidated statements of income.

In the three months ended March 31, 2003, the Company recorded writedowns for impairment of real estate (not classified as held for sale at the time of such writedowns) totaling $1,245, which is included in general and administrative expenses in the consolidated statements of income. There were no writedowns for impairment of real estate in the three months ended March 31, 2004. The 2003 writedown for impairment related to a single-tenant office/industrial real estate project. The non-recourse note payable related to the real estate project had matured and the Company subsequently conveyed the underlying

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

2. Real Estate (Continued)

property to the lender to satisfy the note. The fair value of the asset was determined based on a discounted cash flow projection prior to the conveyance of the property to the lender.

In December 2003, the Company sold a parcel of land for $1,750, of which $1,125 of the consideration received was in the form of an interest-bearing note from the buyer. The Company retained a unilateral right to repurchase the property at any time through 2006, in addition to maintaining the right to approve any plans for development on the property. If the Company exercises its repurchase option, the Company would repay the amount it received from the buyer, plus a return on the buyer s investment. Because of the Company s continuing involvement in and option to repurchase the property, the transaction did not qualify as a sale and as a result, a financing transaction was recorded. As of March 31, 2004, real estate and other assets held for sale includes $844 of real estate and $1,125 of notes receivable, and liabilities related to real estate and other assets held for sale includes $1,750 of notes payable, all related to this parcel of land.

In the three months ended March 31, 2003, the Company sold its 50% partnership interest in a consolidated subsidiary to the other partner in the partnership for a net sales price of $1,032. The transaction resulted in a non-cash decrease in real estate and other assets held for sale of $11,004 (accounts receivable of $4 and real estate of $11,000), a decrease in cash (included in real estate and other assets held for sale) of $92, and a non-cash reduction in liabilities related to real estate and other assets held for sale of $11,804 (decrease in accounts payable of $61, increase in accrued expenses of $164, decrease in notes payable on real estate of $11,907), and a non-cash increase in minority interest of $210. The Company recognized a gain on disposition of $1,530 as a result of this transaction.

3. Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries consist of the following:

	March 31, 2004	December 31, 2003
Real estate	$ 35,382	$ 35,546
Other	30,274	29,479
	$ 65,656	$ 65,025

The Company owns approximately 10.0% of the outstanding stock of Savills plc (Savills), a property services firm headquartered in the United Kingdom and a leading provider of real estate services in Europe, Asia-Pacific and Australia. The investment is classified as an other investment in the table above.

During 1999, the Company formed a limited liability company (the LLC) with a private investment group to develop approximately 120 acres of land adjacent to a metropolitan airport for a mixed-use business park. The land development was being jointly funded by the LLC and three public agencies, for a total expected funding of approximately $155,800. Sources for the LLC s share of total funding included a

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

3. Investments in Unconsolidated Subsidiaries (Continued)

senior debt obligation of approximately $28,200, a junior debt obligation of approximately $13,200 and equity contributions of $1,000, of which $50 was made by the Company. The private investment group provided the remaining $950 in equity contributions to the LLC and has made working capital loans to the LLC. The Company s equity investment is considered to be a variable interest in the LLC, which the Company believes is a VIE. However, based upon its evaluation, the Company is not the primary beneficiary of the LLC and therefore, has not consolidated the LLC. The Company s maximum exposure to loss as a result of its involvement in this VIE is limited to its investment of $50. In April 2004, the Company terminated its interest in and its service agreements with the LLC.

Summarized operating results for unconsolidated subsidiaries accounted for on the equity method are as follows:

	For the Three Months Ended March 31,			
	2004		2003	
Real Estate:				
Total revenues	$	43,661	$	15,300
Total expenses	5,707		9,474	
Net income	$	37,954	$	5,826
Other:				
Total revenues	$	123,182	$	82,319
Total expenses	119,310		82,002	
Net income	$	3,872	$	317
Total:				
Total revenues	$	166,843	$	97,619
Total expenses	125,017		91,476	
Net income	$	41,826	$	6,143

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
March 31, 2004
(in thousands, except share and per share data)
(Unaudited)

4. Accrued Expenses

Accrued expenses consist of the following:

	March 31, 2004		December 31, 2003	
Payroll and bonuses	$	27,233	$	42,316
Commissions	22,669		38,337	
Development costs	9,739		15,045	

Deferred income	8,267	5,691
Interest	922	1,175
Insurance	3,176	3,032
Restructuring charges (see Note 13)	1,750	1,864
Other	10,384	9,584
	84,140	117,044
Less accrued expenses included in liabilities related to real estate and other assets held for sale (see Note 7)	255	970
	$ 83,885	$ 116,074

5. Long-Term Debt

Long-term debt consists of the following:

	March 31, 2004	December 31, 2003
Borrowings under $150,000 line of credit with a bank (the Credit Facility)	$	$ 10,000
Borrowings under $25,000 discretionary line of credit with a bank		
Borrowings under £1,100 short-term borrowing facility with a bank (the European Facility)	29	
Other	878	1,095
Total long-term debt	907	11,095
Less current portion of long-term debt	895	1,081
	$ 12	$ 10,014

The Company is subject to various covenants associated with the Credit Facility, such as maintenance of minimum equity and liquidity and certain key financial data. In addition, the Company may not pay dividends or make other distributions on account of its common stock exceeding 50% of the previous year s net income before depreciation and amortization, and there are certain restrictions on investments and acquisitions that can be made by the Company. At March 31, 2004, the Company is in compliance with all covenants of the Credit Facility.

The covenants associated with 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

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(Unaudited)

5. Long-Term Debt (Continued)

under the Credit Facility to an amount less than the $150,000 commitment. At March 31, 2004, the Company has unused borrowing capacity of $128,209 (taking into account letters of credit outstanding and limitations from certain financial covenants) under its Credit Facility.

6. Notes Payable on Real Estate

The Company has loans secured by real estate consisting of the following:

		March 31, 2004				December 31, 2003		
Current portion of notes payable on real estate		$	65,911			$	68,192	
Notes payable on real estate included in liabilities related to real estate and other assets held for sale (see Note 7)		14,702				23,666		
Total notes payable on real estate, current portion	&nb							